Exhibt B

Strasburg Fire Protection District Impact Fee Study

DRAFT REPORT

Draft Report

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Strasburg Fire Protection District Impact Fee Study

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SECTION I.
Impact Fee Design Considerations

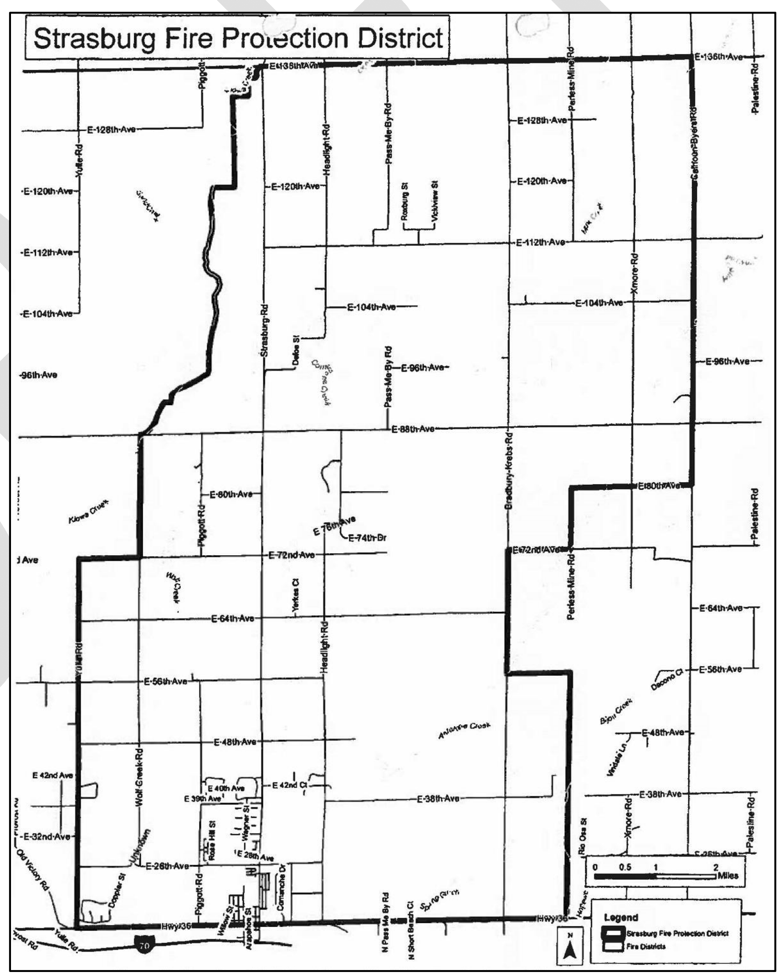
This report presents the analysis underlying calculation of proportional development impact fees for the Strasburg Fire Protection District (the District). This section describes fee design requirements and various implementation considerations.

Background and Objectives

The District was established as a volunteer department in 1927 and expanded its service in 1948 to include medical services. Today, in addition to providing fire protection and emergency medical services, the District provides fire education, rescue services, and hazmat services to portions of Adams and Arapahoe Counties. Figure 1-1 shows the District's 262 square mile service area.

Figure I-1.
Strasburg FPD Service Area

Source:
Strasburg FPD.



The Strasburg FPD first hired BBC Research & Consulting in March 1999 to determine if the District had a defensible basis for adopting impact fees and, if so, to suggest potential fee amounts. Since 1999, BBC has updated the fees twice – once in 2001 and again in 2006. Today, the District still assesses impact fees for new development and, after recent legislative action by the state, other nearby fire districts are starting to do the same.

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.

This document updates the 2006 study with more recent District financial, infrastructure cost and demographic data, as well as specific fee implementation recommendations.

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;

[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.

- Impact fee revenues must be used for capital infrastructure expansion. No funds can be used for correction of existing system deficiencies; and
- 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

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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

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:

- **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 District as it provides the most accurate and robust fee calculation methodology given all available information. The buy-in approach was also used in prior impact fee studies for the District.

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.

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

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 the District incorporates a three-tiered structure that differentiates between single family and multifamily residential units and designates all commercial/industrial use as a single category assessed by the square foot.

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 the District.

Strasburg FPD Budget Overview

The 2017 Budget indicates the District will collect revenues of approximately $695,400 this year. Property taxes, generated from a 7.177 mill levy on assessed property values, account for two-thirds of the District's projected revenues. The impact fees for developers currently collected by the District account for 5 percent of the District's income. Despite this small proportion of the annual revenue, the District has an Impact Fee Fund balance of $101,623.

The District is expected to incur expenditures of $630,400, before transferring any revenue to the Capital Fund – a 32 percent increase from the prior year. Operating expenditures account for the majority of all expenditures in 2017, with salaries and benefits being the single largest operational line item at almost $200,000.

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. This is particularly important given the possible decline property tax revenues based on the results of the 2017-2018 Residential Assessment Rate Study which suggests lowering the residential property tax assessment rate in compliance with the Gallagher Amendment.

If the District chooses to apply 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.

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 the District impact fee includes the following tasks:

1. Quantify the fire infrastructure standards and investments needed to maintain the current level of service;

2. Develop estimates of the District's current land use pattern; and

3. 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, the district has four types of capital infrastructure related spending that should be included in a calculation of current infrastructure investment:

- Land and buildings including two stations and a helipad;

- Major apparatus such as fire engines and specialized vehicles located at each station;

- A variety of life-saving and fire-fighting apparatus located at individual fire stations or on pieces of equipment, including software; and

- The cost of this impact fee study update.

Figure II-1 on the following page presents the District's current capital infrastructure. Replacement values are based on information provided by the District, including a detailed description of the District's capital assets from VFIS of Colorado.

As discussed earlier in this report, only the District's equity share of assets can be included in the impact fee calculation (i.e., debt used to finance fire stations or vehicle must be excluded).[5] Presently, the District does not have any capital or equipment leases.

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. The District property tax or other revenue sources will maintain the wild land fire standard of service.

Accordingly, the one Brush Truck used exclusively for wildfires is not included in the impact fee calculations (shown as 0% "portion to include in impact fees" in Figure II-1). The two antique Ford trucks are also excluded in the calculations, as they are not used to provide fire and/or emergency services in the District.

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

The total replacement value of the District's current capital infrastructure eligible to be included in the impact fee calculation is approximately $2.38 million.

Figure II-1.
Strasburg Fire Protection District's Current Assets, 2017

Type of Capital Infrastructure	Total Replacement Value	Portion to Include in Impact Fees (1), (2)	Allocated Replacement Value (3)
Buildings and Land			
Station 1 - 56281 E Colfax Ave	$974,542	100%	$974,542
Station 2 - 56800 E 76th Ave	$158,136	100%	$158,136
Helipad	$35,407	100%	$35,407
Vehicles			
1913 Ford Antique	$10,000	0%	$0
1946 Ford Antique	$10,000	0%	$0
1972 Ford Tanker	$10,000	100%	$10,000
1985 Chevrolet Mini Pumper	$10,000	100%	$10,000
1995 Pierce Quint	$150,000	100%	$150,000
1996 International Pumper	$50,000	100%	$50,000
1997 Ford First Responder	$5,000	100%	$5,000
2001 Pierce Pumper	$80,000	100%	$80,000
2002 Freightliner Rescue Hvy	$50,000	100%	$50,000
2003 Ford Mini Pumper	$40,000	0%	$0
2003 Freightliner Brush Vehicle	$50,000	0%	$0
2004 Ford First Responder	$5,000	100%	$5,000
2005 Peterbilt Tanker	$100,000	100%	$100,000
2008 Ford Pumper	$50,000	100%	$50,000
2010 Ford Amb Als	$50,000	100%	$50,000
2013 Chevy Amb Als	$115,000	100%	$115,000
Fire Equipment and Business Property			
Personal Property	$172,800	100%	$172,800
Software	$250,000	100%	$250,000
Fee Study Update			
Cost of updating study	$9,000	100%	$9,000
Impact Fee Fund Balance			**$101,623**
Total Value of Fire Infrastructure for Fee Calculation			**$2,376,508**

Notes:

(1) Reflects District's equity in each piece of capital infrastructure, net of any outstanding debt.

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

(3) District equity multiplied by replacement value equals allocated replacement value.

Sources:

Strasburg Fire Protection District, VFIS of Colorado Insurance Inventory and BBC Research & Consulting.

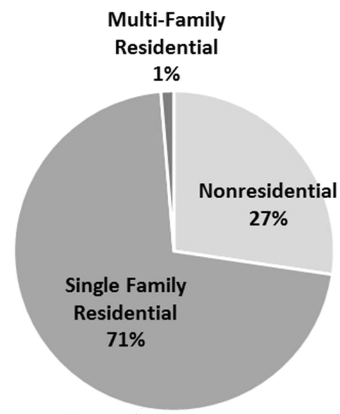
Current development pattern. This report utilizes the current distribution of development in the District as a basis for allocating certain infrastructure expansion costs over different types of land uses. It is consistent with the Colorado Municipal League's recommendation that cost allocation be based on a measure of land use.

The distribution of commercial and residential building square footage is set forth in Figure II-2, based on data from the Adams and Arapahoe County Assessors. The District is 73 percent residential development and 27 percent nonresidential (i.e., commercial and industrial) development. The vast majority of residential development is comprised of single family homes.

Figure II-2.
Distribution of Commercial and Residential Square Footage, 2017

Source:

Adams County and Arapahoe County Assessors 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 existing land use pattern is used as a reasonable proxy for the assignment of costs to particular types of development.

Full cost-recovery impact fees for the District, total $824 per single family residential dwelling unit and $526 per multifamily dwelling unit. Nonresidential fees total $0.53 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.
Fire Impact Fees, 2017

Source:

BBC Research & Consulting, 2017.

Calculation of Impact Fees	
Value of Fire Infrastructure	$2,376,508
Current Land Use Distribution	
Nonresidential	27.3%
Single family	71.3%
Multifamily	1.3%
Costs by Land Use Category	
Nonresidential	$649,827
Single family	$1,695,634
Multifamily	$31,047
Existing Development	
Nonresidential (in square feet)	1,223,942
Single family (in dwelling units)	2,057
Multifamily (in dwelling units)	59
Impact Fee by Land Use	
Nonresidential (per square foot)	**$0.53**
Single family (per dwelling unit)	**$824**
Multifamily (per dwelling unit)	**$526**

Summary and Recommendations

In light of the Strasburg Fire Protection District's out-of-date impact fee calculation from 2006, updated 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 continue to maintain the Impact Fee Fund separate and apart from the General Fund, withdrawn only to pay for growth-related infrastructure.

- The District should continue to adhere to a written policy governing its expenditure of monies from the Impact Fee Fund. The Fund should continue to 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 continue to 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