

Review of Capital Expansion Fees

Capital Expansion Fees:

Fire Protection

Law Enforcement

Streets

General Government

Library

Museum and Cultural Services

Parks

Recreation (1994)

Trails (1994)

Open Lands (2001)



City of Loveland Financial Habits

- ABC: Always Be Conservative
- It is okay to save for the future
- Prefer pay as you go financing over debt financing
- Try to keep tax rates low
 - Mill levy at 9.564 since the early 1990s
 - Sales & Use Tax rate at 3% since the late 1980s
- Growth should pay its way - since 1984
- Loveland has been fiscally responsible and successful

Local Economic and Revenue base trends

- 1970s: Rapid growth, nearly double in size
- 1980s: Slower, but still rapid growth
- 1990s Rapid growth
- 2000s Centerra opens in 2005
- 2007-
2010 Great recession
- Outlook sloooow return to prior conditions

Demographics show reasons for
hope in 2015 - 2016

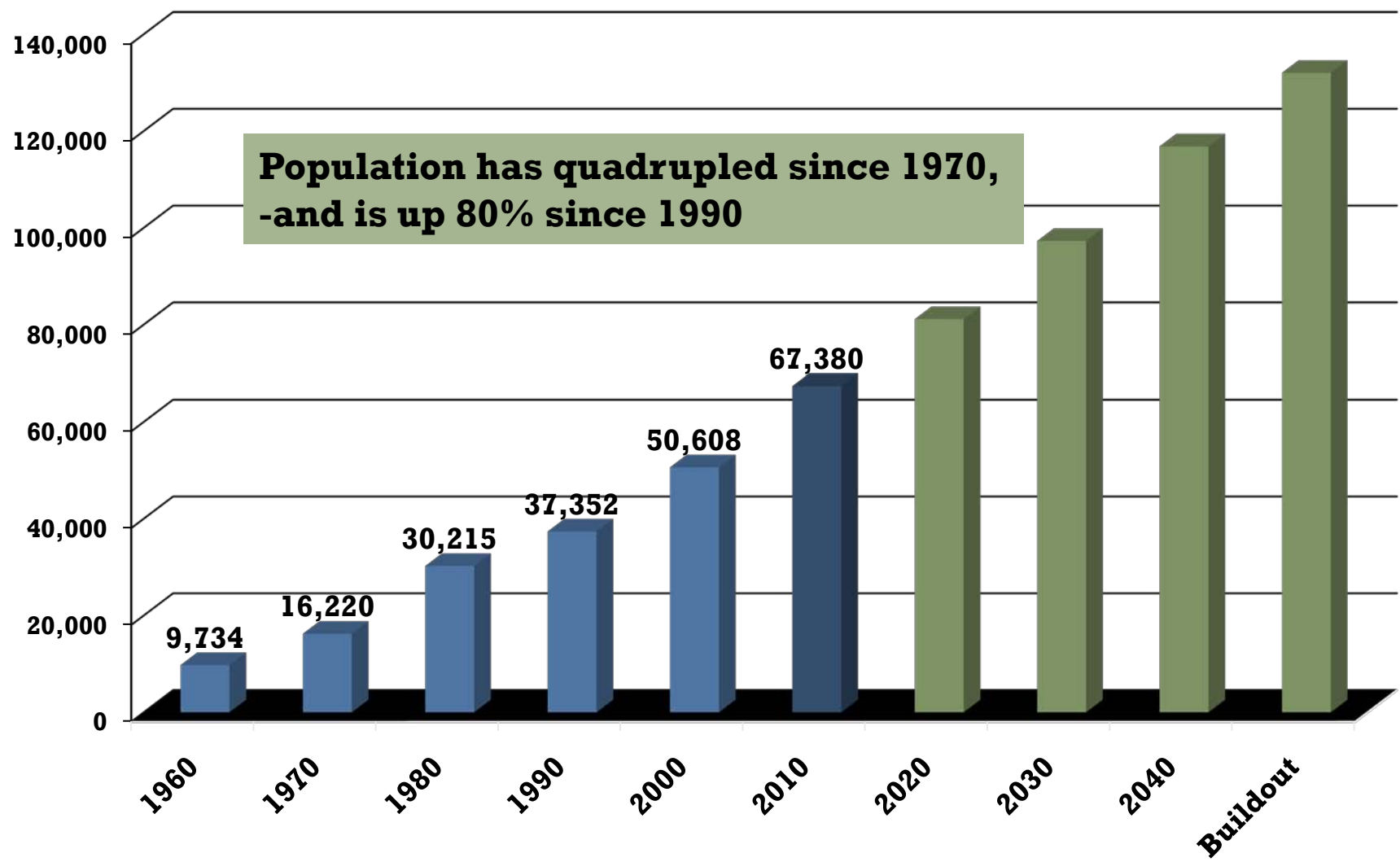
City's Economic and Fiscal Base

- While the City was growing rapidly in the 1960s and 1970s, retail locations were shifting away. Industry was growing strong.
- 1980s: Not enough revenue to keep up with growth, quality of life was declining; services stressed; voters turned down a tax increase
- 1990s: Some tax base expansion, but Loveland sales were still behind other locations
- 2000s: New retail added to the base
- 2005-2008 major expansion at Centerra helped to level the sales tax per capita
- The impacts of the recession have been felt across the region

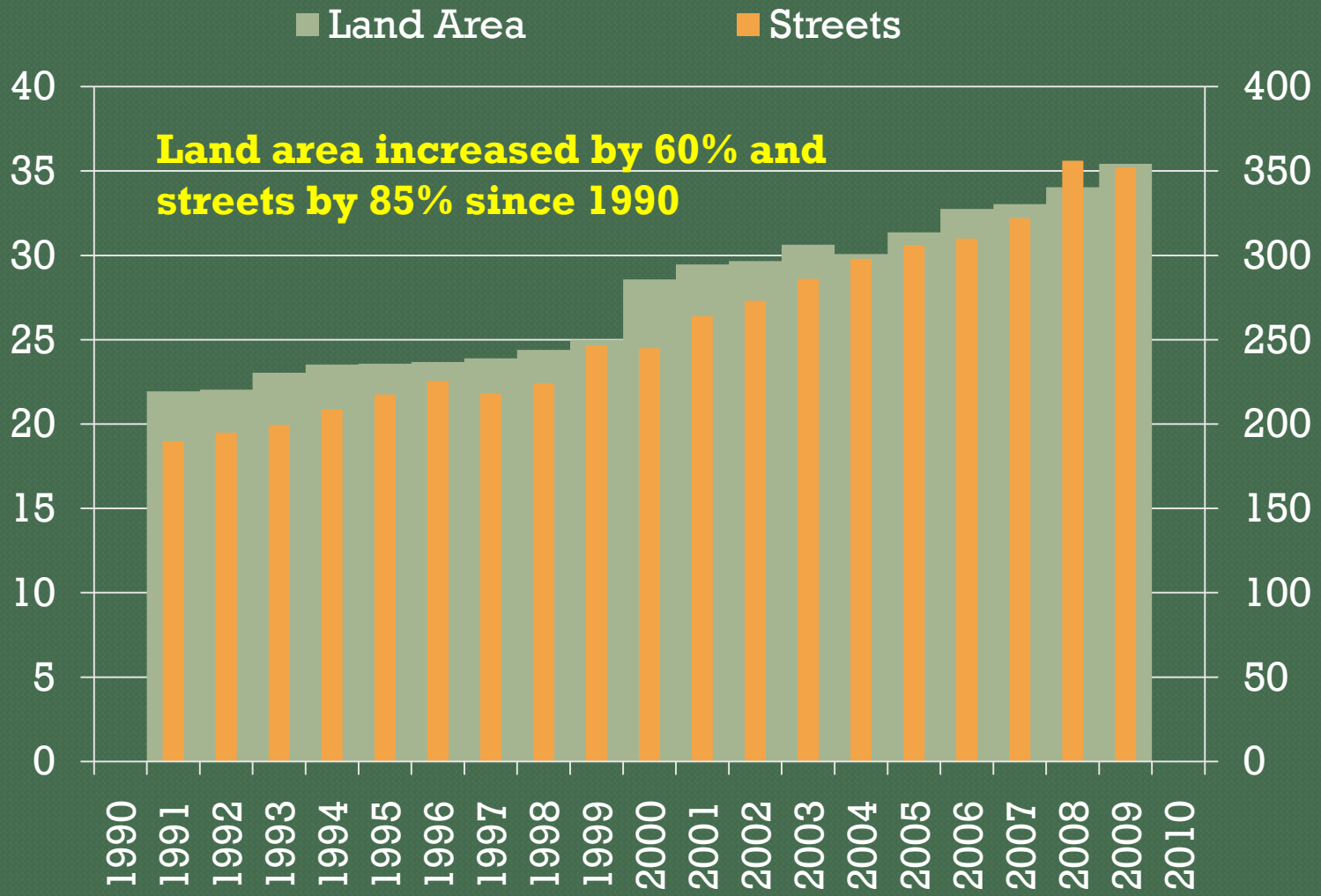


City of Loveland Population

1960 to 2010 and Projection to Build-out



Street miles and area



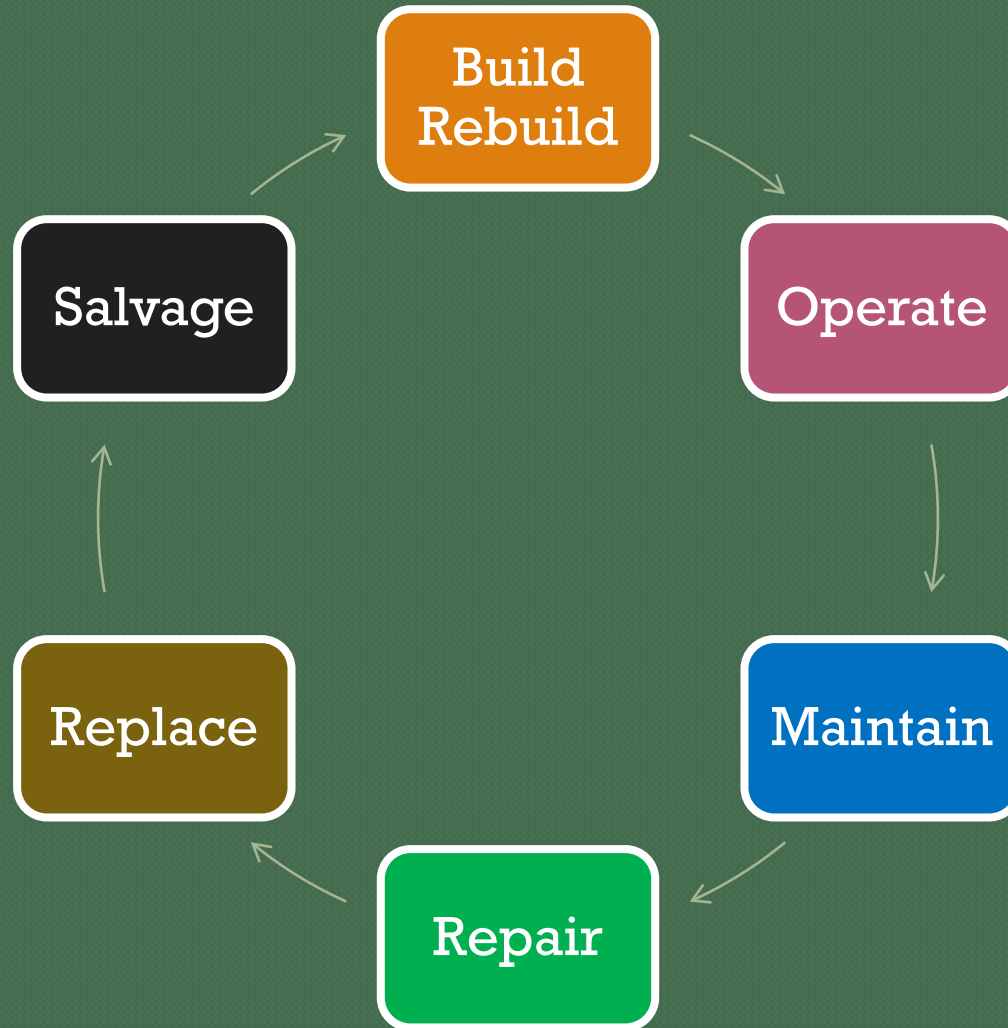
How Loveland covered costs of Capital Expansion

- Pre-1984 Capital paid thru taxes
- 1984 fee Study Fees implemented
- 1994 Inflation adjustment set
Recreation and Trails added
- 1997 / 1998 Related equipment added
- 2001 Open lands added
- 2007 Update for land use
changes and new capital
- 2009 update Review and comparison
Decrease in building costs, so
fees reduced. Temporary
waiver for multi-family
- Here and now Are more adjustments necessary

Examples of Projects built/being built/ to be built with Capital Expansion Fees

- Fire & Rescue: Fire Stations and equipment, New east station, new engine for North West coverage
- Law Enforcement: Police & Courts Building, Vehicles for new officers, future space and equip.
- General Govt: Work order system, Library & Museum expansions, Service center III
- Library: Past expansion, current expansion
- Museum: Buy land for expansion, expansion
- Parks: Kroh, Sports, Fairgrounds, Mehaffey
- Recreation: 1st Chilson expansion, Current Chilson Expansion Youth Sports Equipment, future rec center
- Trails: Recreation Trail, Boyd Lake area, N-287 Underpass, more trail and underpasses
- Open Lands: None yet, but future areas in planning
- Streets: Traffic Signals @ Denver & 34, Street Widening @ 1st & Railroad, Roundabouts on Rocky Mountain Sidewalks on N. Duffield and N. Taft, Madison Ave. ITS Upgrade, State 402 & St. Louis, Boyd Lake Ave. Many future projects, Street rehab,

Steps in the Capital Project Life Cycle



Where do CEFs fit in the life cycle cost system

		Impact		User
		<u>Fees</u>	<u>Taxes</u>	<u>Fees</u>
Build	Capital Costs	Yes	Yes	Yes
Operate	Operating Costs	No	Yes	Yes
Maintain				
Repair				
Replace				
Salvage				
Rebuild	Capital Costs	No	Yes	Yes

1980s solution: Objectives of the Fee System

- ◎ Growth must pay its own way.
 - Fees will accurately reflect actual growth-related costs.
 - Once new development “buys in” to existing infrastructure, ongoing operating charges will be similar to existing development.
 - Only costs directly associated with the provision of city services will be reflected in development (CEF) fees
- ◎ System must be practical

Basic Methods

- Based on a **Capital Improvement Plan**
Used for streets (2030 Plan)
Land uses indicate trips
- Based on current **service level** and value of investment
Used for other nine fees
Have master plans and levels of service, but not the same specificity as streets
As we get closer to build-out, plans will become more specific

Steps in the CEF Update Process

- Determine Land Use Distribution
- Determine Value of Buildings, Equipment, and other capital
- Allocate by land use category
 - Most fees only apply to residential uses
 - Law, Fire, Streets, and General Government apply to Commercial and Industrial
- For Residential share, allocate by units
- For Commercial and Industrial, allocate by square feet
- Fees change over time based on land use changes

Equity Issues – Fairness and who pays for what

- More than half of the housing units in the City have been built under the CEF system. For 25 years it has been the City's standard
- CEFs have added to quality of life and promoted growth. CEFs are in the CIP plan.
- Horizontal Equity
- Intergenerational Equity

Municipal Code Provides for an Annual Inflation Adjustment

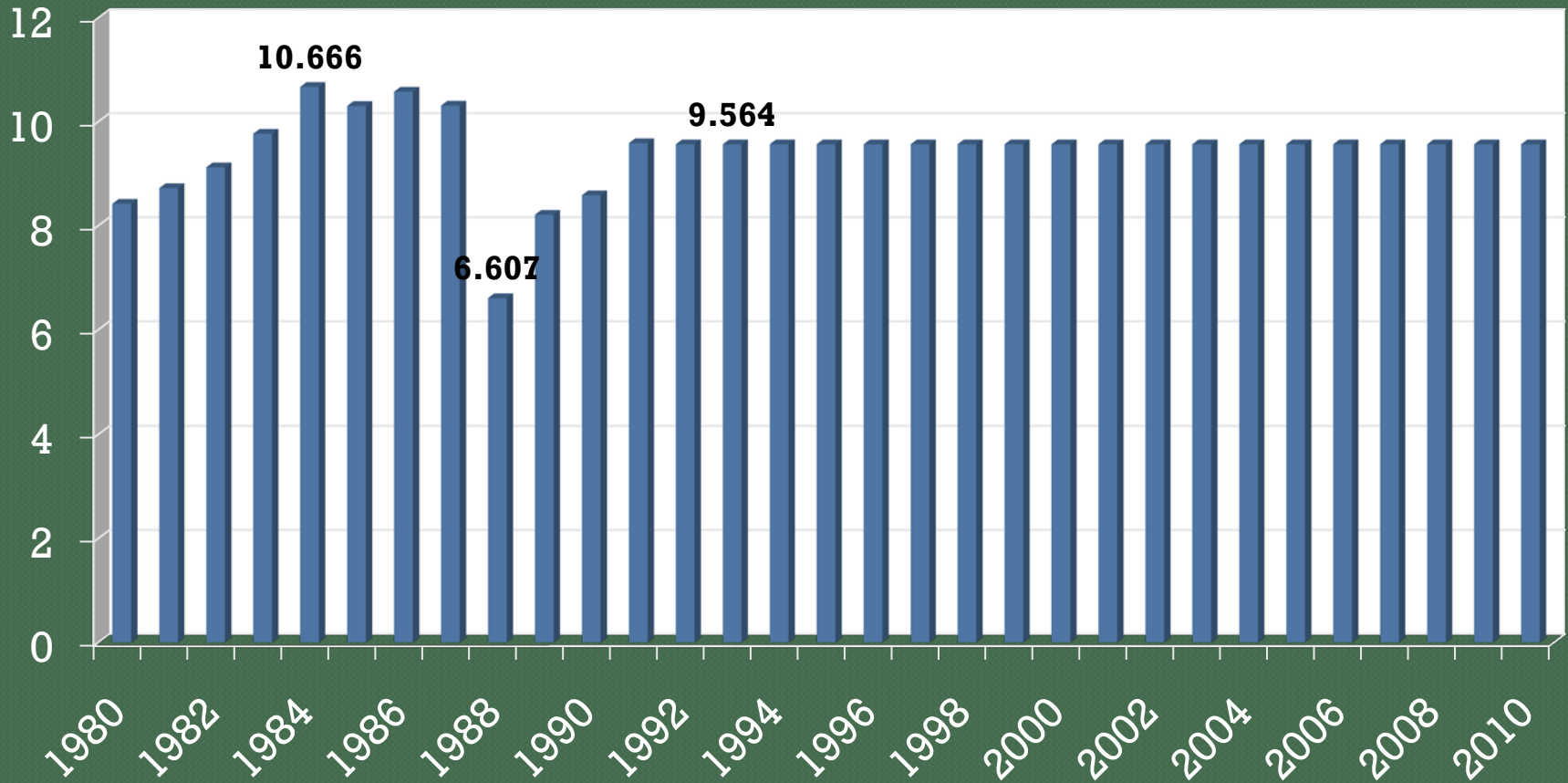
- **16.38.110.A.** The capital expansion fees shall be adjusted annually, effective January 1 of each year. The adjustment shall be equal to the percentage change in the Construction Cost Index for the Denver area as set forth in the preceding year's September issue of the Engineering News-Record published by McGraw Hill Companies.

This information just published and shows an 8.62% increase following a 2.63% decrease last year.

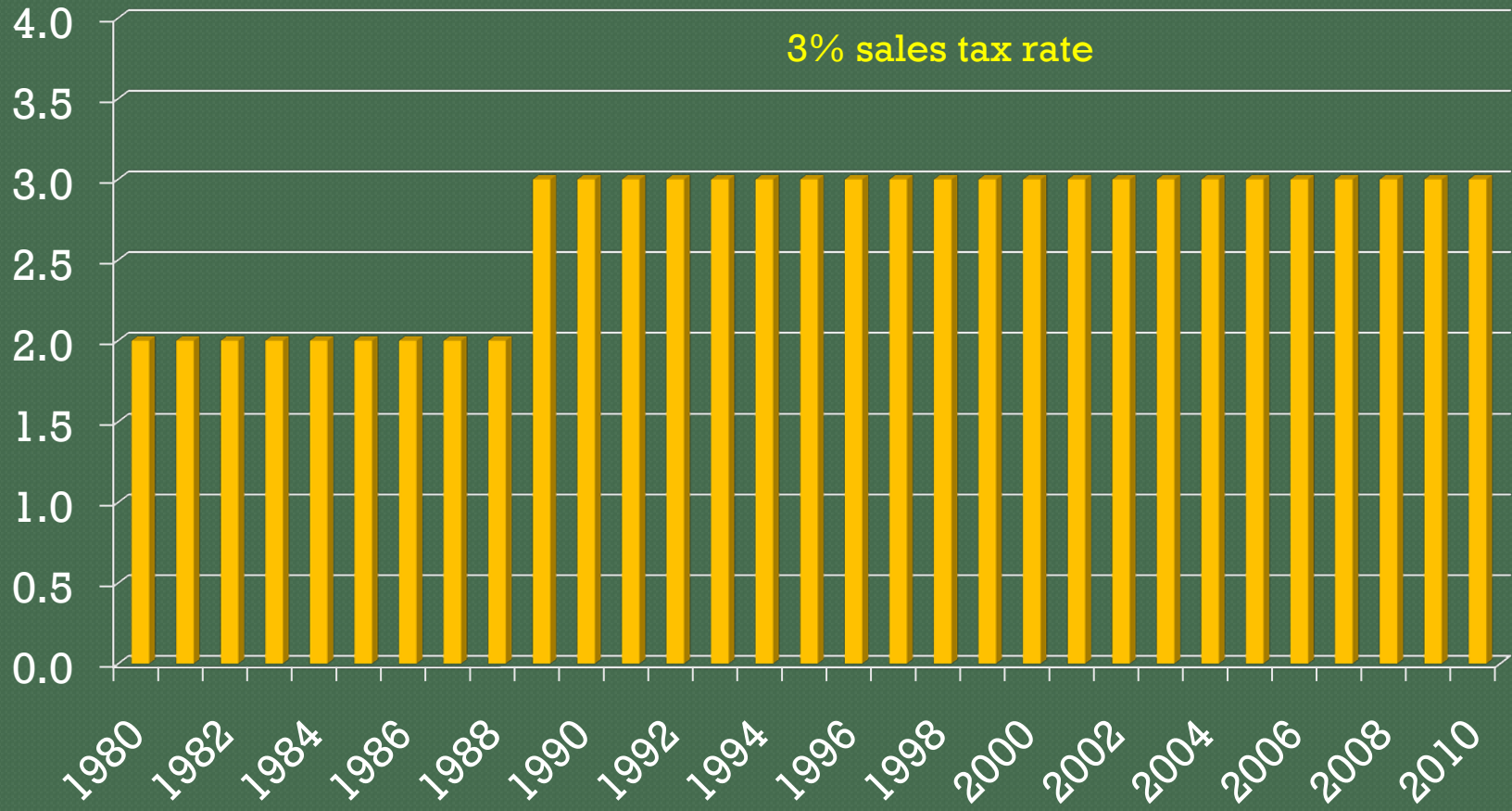
- The inflation factor for Streets is based on the most current preceding eight quarters' average annual percentage change in the construction costs as determined by the Colorado Department of Transportation Construction Cost Index.

City of Loveland Mill Levy on Property

Mill Levy



City of Loveland Sales Tax Rate



Other Cities

Fort Collins

Loveland

Longmont

Greeley

Boulder

Brighton

Broomfield

Westminster

Thornton

Northglenn

Commerce City

What about taxes in other cities in the region

	Sales Tax Rate	Mill Levy
● Fort Collins	3.0%*	9.797*
● Greeley	3.46%	11.274*
● Longmont	3.275%	13.420
● Loveland	3.0%	9.564

- Fort Collins will be voting on a 0.85% sales tax increase in November
- Fort Collins and Greeley also have an additional mill levy for their respective library districts.
- All three cities have a use tax on equipment, Loveland does not.

Cities a little further away just the sales tax

	Sales Tax Rate
○ Boulder	3.41%*
○ Brighton	3.75%
○ Broomfield	4.15% (includes county)
○ Northglenn	4.00%
○ Commerce City	3.50%
○ Thornton	3.75%
○ Westminster	3.85%

Study on Waiver of Fees

From the National Impact Fee Roundtable 2008 Conference

Long-term Impacts of Fee Reductions

Public agency



Loss of revenue

Land owner



Higher land price

Developer



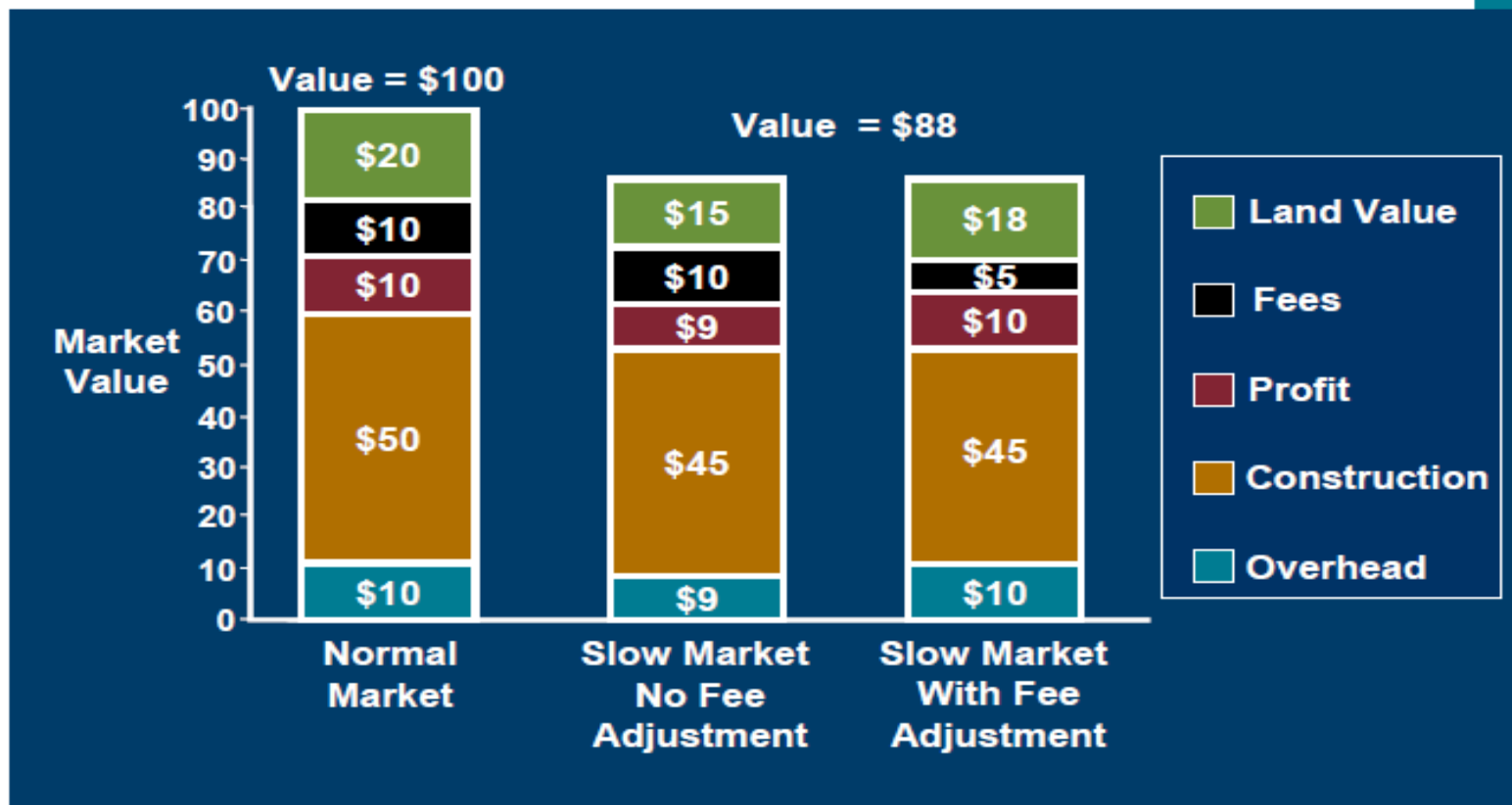
Unaffected

**Residents &
Businesses**



**Lower facility
standards**

Impact of Fee Reductions on Development Feasibility – Slow Market



Impact of Fee Waiver

	<u>Cost Per Unit</u>			
	No Fee Waiver	Fee Waiver	Change	
Fees	\$44,000	\$0	(\$44,000)	(100%)
Financing	26,000	21,000	(5,000)	(19%)
All Other	379,000	367,000	(12,000)	(3%)
Total	\$449,000	\$388,000	(\$61,000)	(14%)

Project Description

- 22 residential units
- Owner-occupied
- Downtown location

Key Assumptions

- Fees % of total value = 10%
- Construction loan interest rate = 10%
- "All other" includes profit @ 11%

Impact of Fee Deferral

Cost Per Unit

	No Fee Deferral	Fee Deferral	Change	
Fees	\$44,000	\$44,000	\$0	0%
Financing	26,000	21,000	(5,000)	(19%)
All Other	379,000	378,000	(1,000)	(<1%)
Total	\$449,000	\$443,000	(\$6,000)	(1%)

Project Description

- 22 residential units
- Owner-occupied
- Downtown location

Key Assumptions

- Fees % of total value = 10%
- Construction loan interest rate = 10%
- "All other" includes profit @ 11%

The Construction Industry

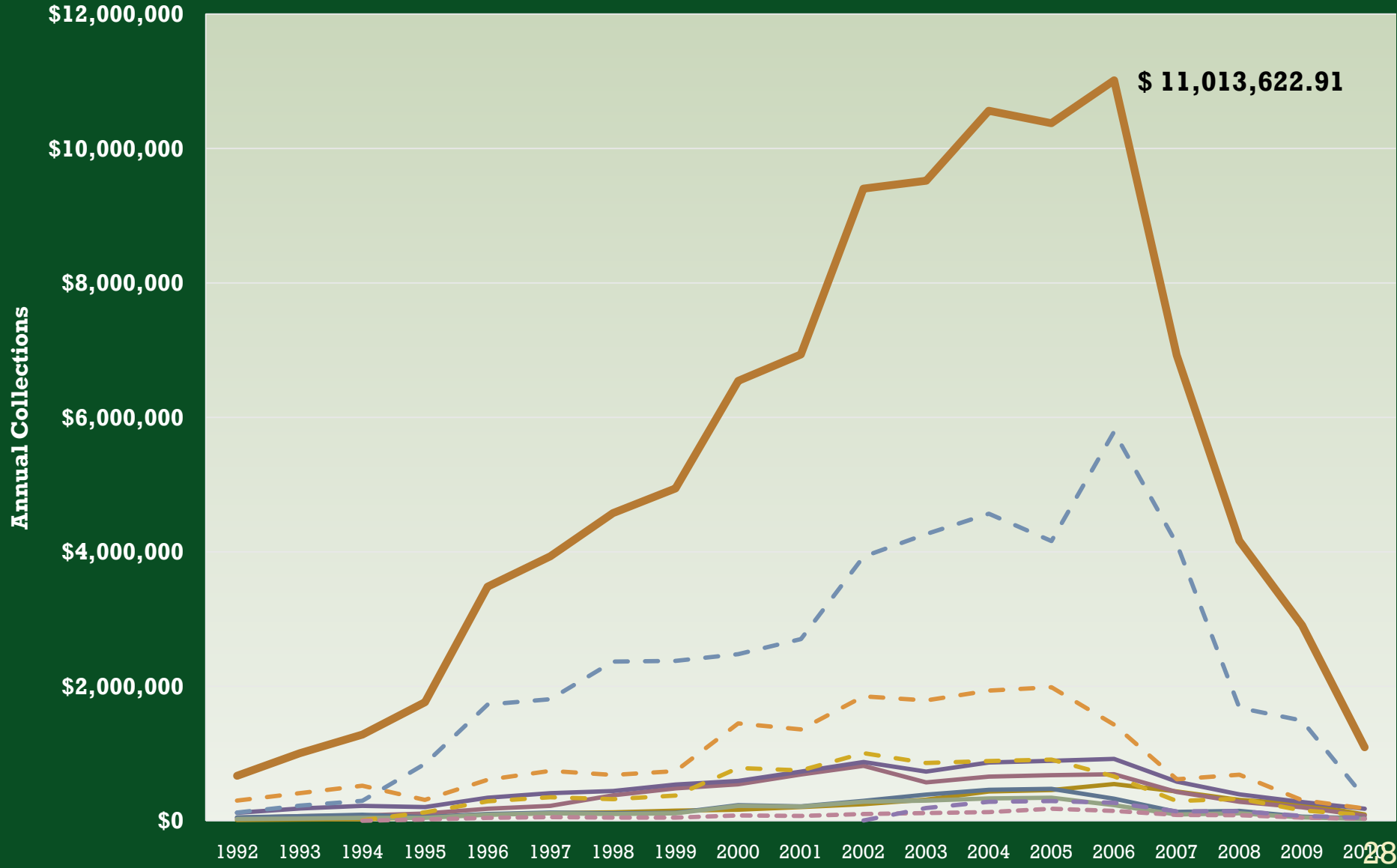
- ◉ Many causes to this recession, mostly too much stimulus of housing and financing
- ◉ Graphs of meter sets, building permits
 - All the same, development now far below average,
- ◉ The outlook for the immediate future
 - The recovery will likely take years
 - Financial stress on the immediate horizon
- ◉ The outlook for the next 20 years
 - Demographics should improve by 2015-16

What fees have been

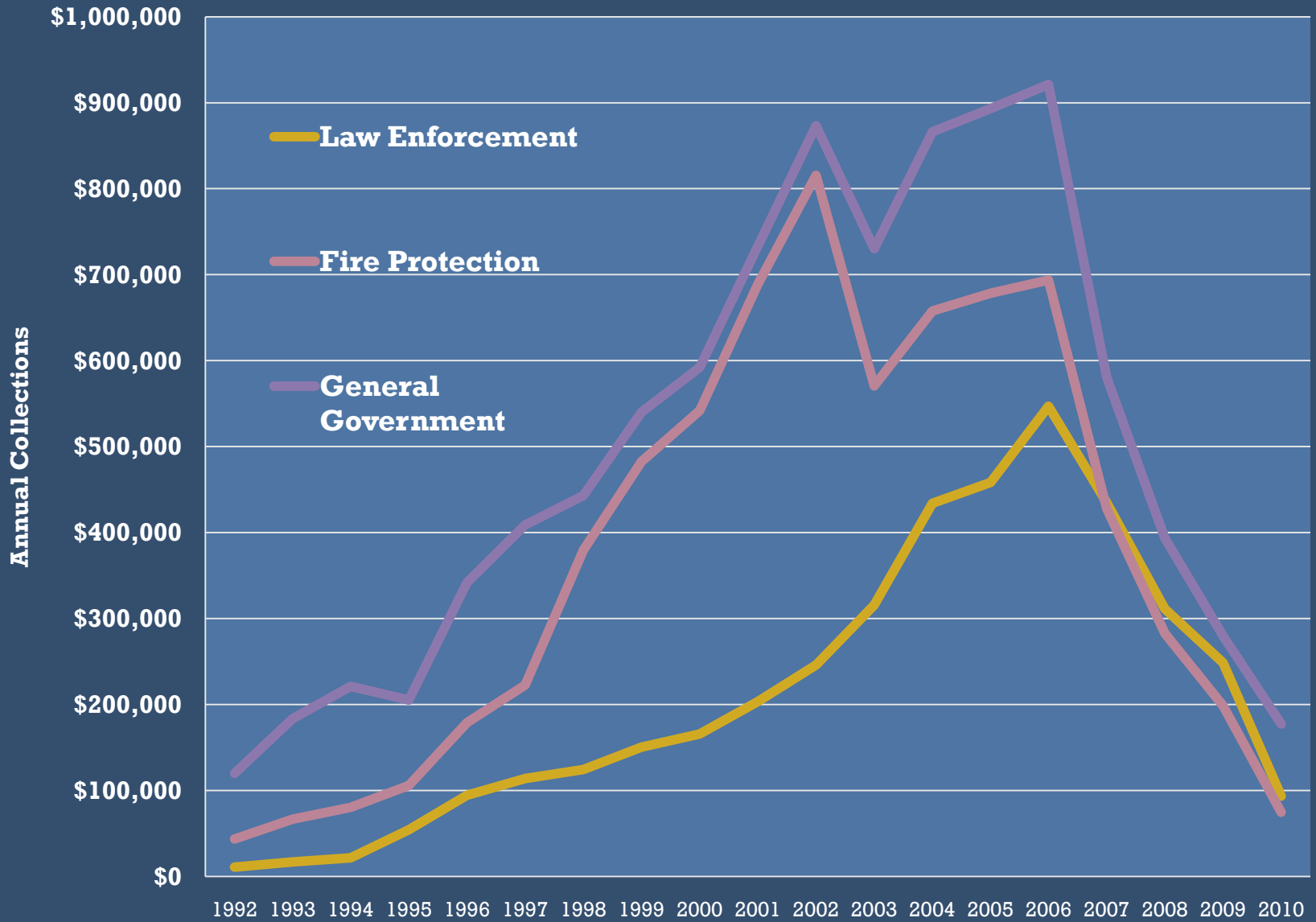
- ⦿ Graph showing collections
 - Graph showing how the fees have changed
- ⦿ Maps showing some of the projects to be used at study session
- ⦿ Capital plan showing future projects with the CEFs included in the proposed budget

Capital Expansion Fees Collected - 1992 to Present

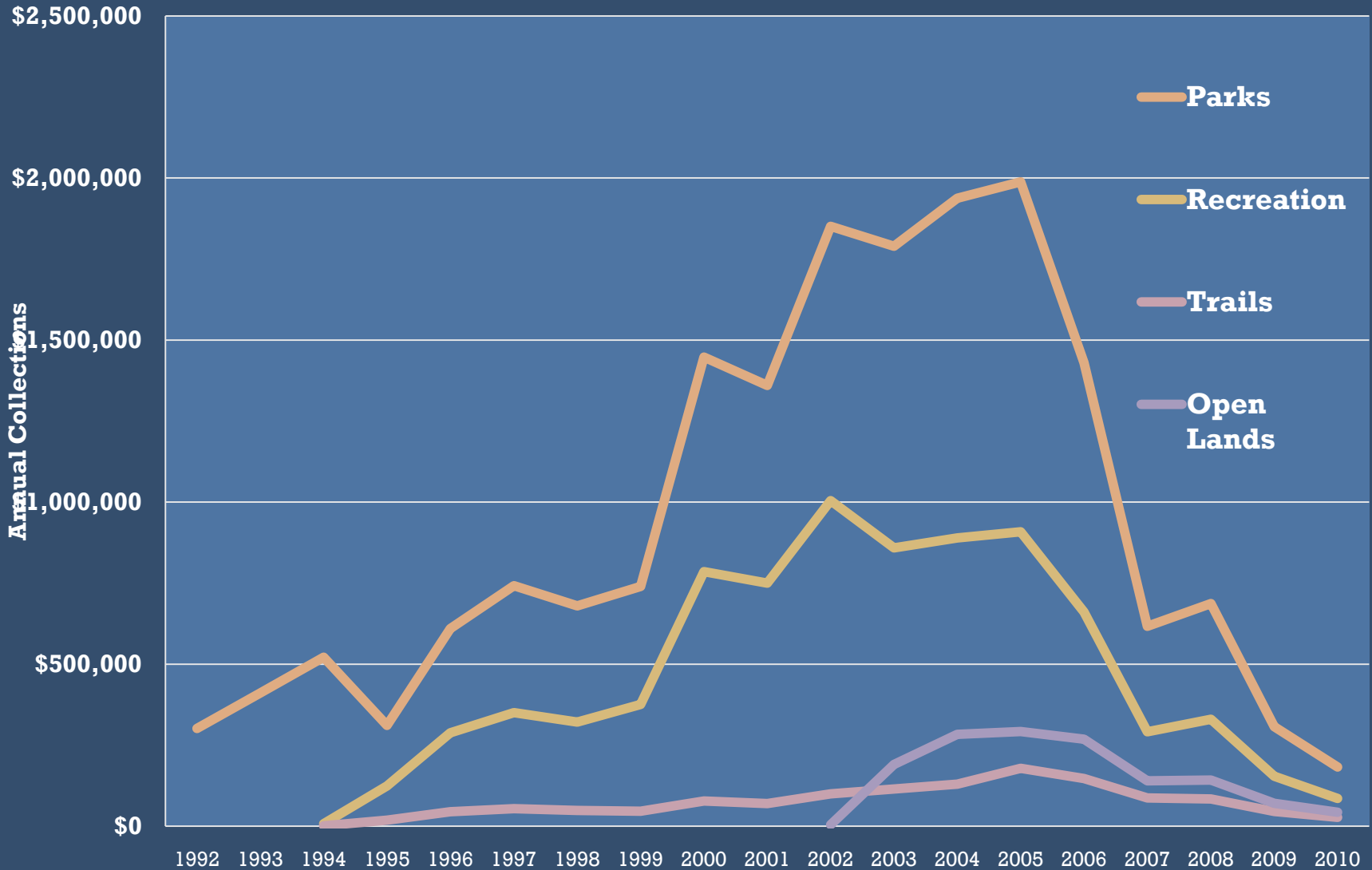
- Total CEF
- Law Enforcement
- Fire Protection
- General Government
- Library
- Museum
- Parks
- Recreation
- Trails
- Open Lands
- Streets



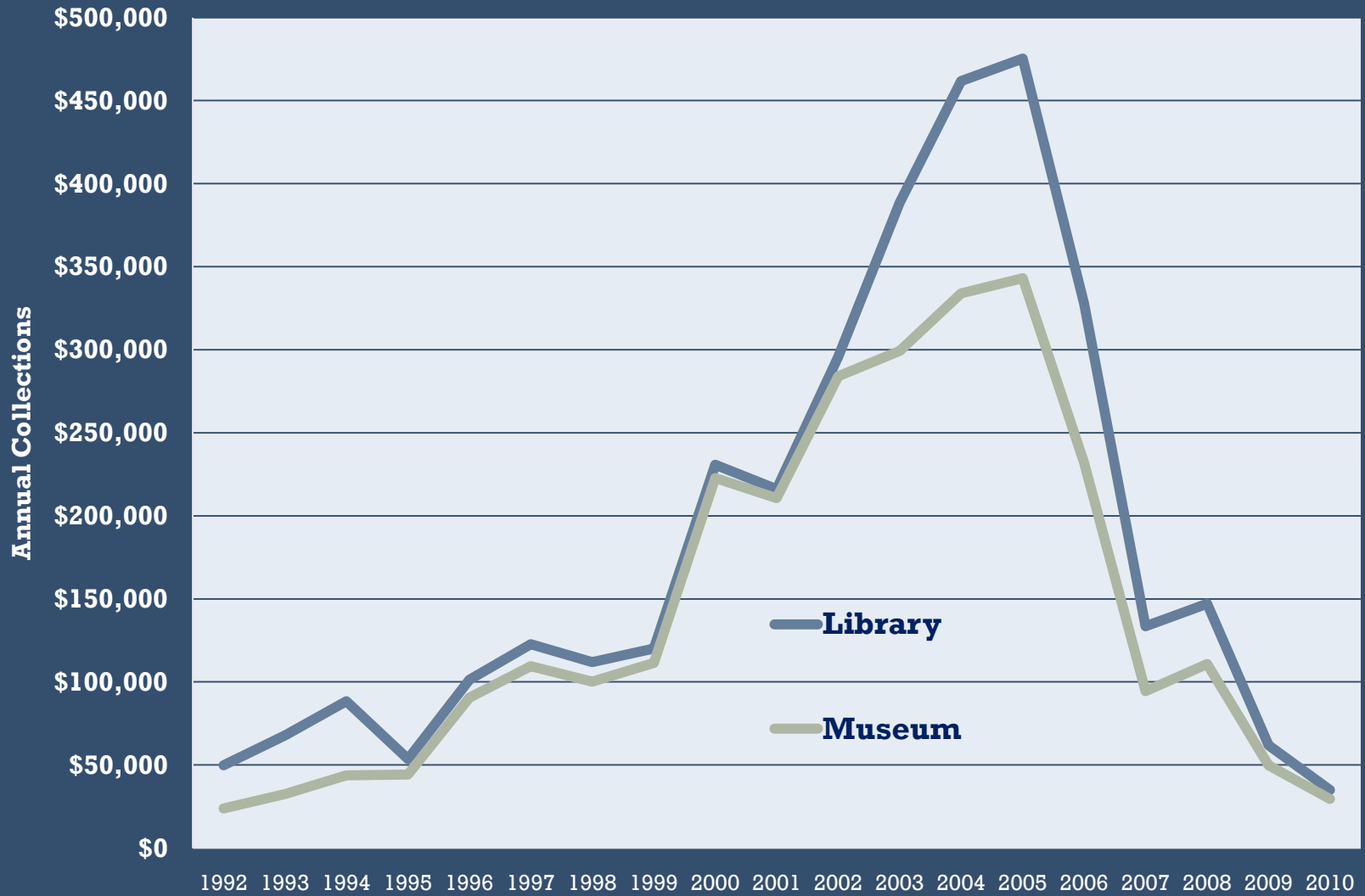
Capital Expansion Fees - 1992 to Present - Law Enforcement, Fire Protection, General Government



Capital Expansion Fees - 1992 to Present - Parks, Recreation, Trails, Open Lands

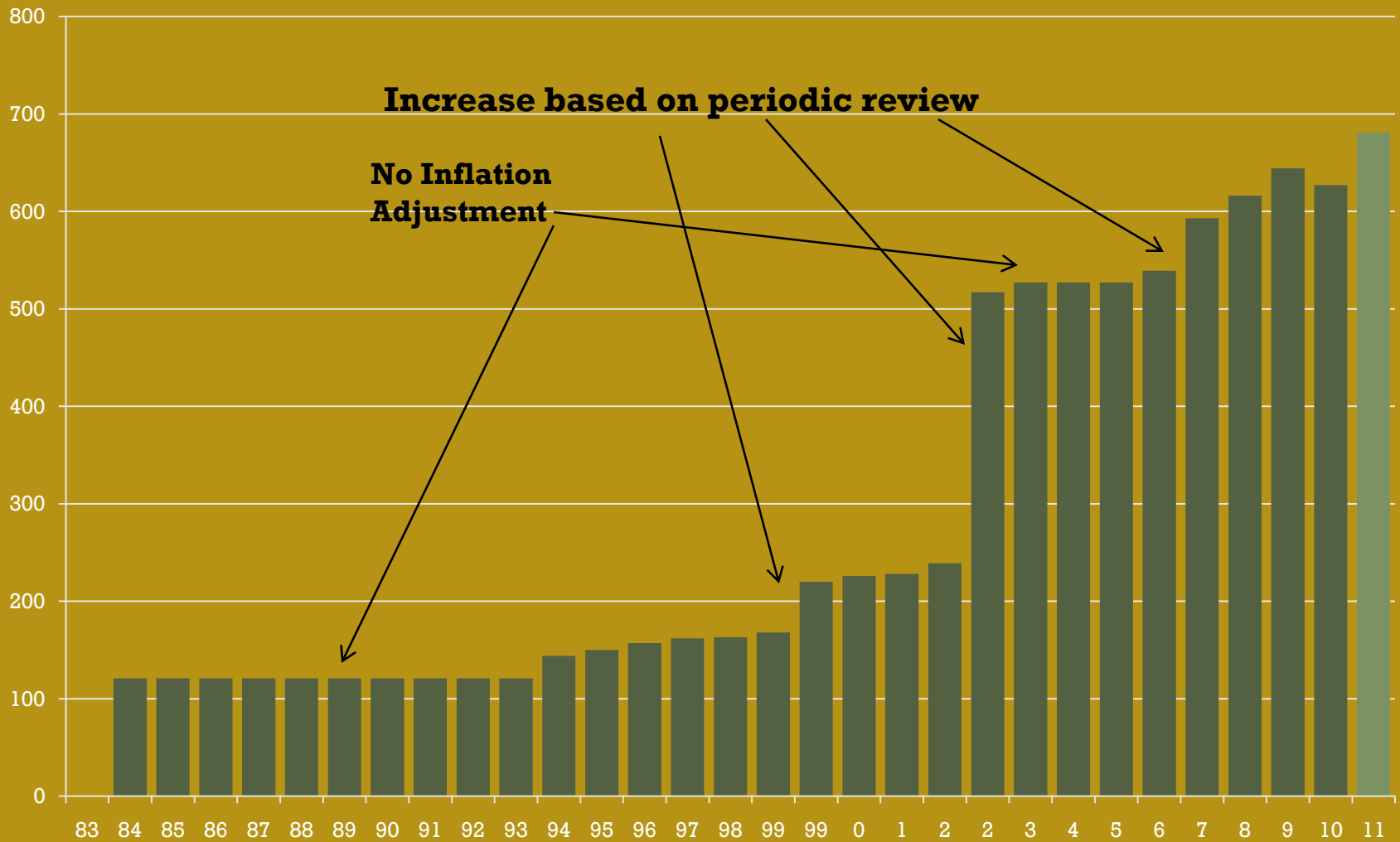


Capital Expansion Fee Collections - 1992 to Present - Library and Museum



Library: Changes in Fee Level since 1984

2011 level based on inflationary adjustment



Summary of Findings (staff)

- ◎ City build-out has moved further out into the future as growth rates have slowed dramatically.
 - About half-way to estimated build-out.
 - Too soon to begin the final descent into the final destination.
- ◎ Fees or replacement revenue sources are needed to keep this community a high quality place to live. Unless other sources of funding are identified, stay the course on fees.

Need to find the right balance

FEE ADEQUACY

- CEFs are an important part of Loveland's capital improvements and future plans. They have helped address how to keep up with growth demands.

Should the fees continue on the course they are on?

COMPETITIVE CONSIDERATIONS

- Are the fees appropriate given what surrounding communities charge? If not, to what degree should they be revised.

Decision Paths

- The CEFs are performing as designed and the consequences manageable and acceptable
- The CEFs are have consequences that should be addressed now.
 - Minor adjustments to go along with annual inflation adjustment
 - Moderate adjustments to be brought to Council in November (May affect 2011 Budget)
- Major review: Freeze the fees for now, recognizing impacts on funding and future capital. Work with Boards and Commissions, Conduct public process similar to Cost of Growth