



CITY COUNCIL MEMORANDUM

FROM: The Office of the City Manager **DATE:** December 11, 2017
SUBJECT: Public hearing and discussion on amending Land Use Assumptions, Capital Improvements Plans and Impact Fees for Water and Wastewater and amending Impact Fee Regulations, pursuant to Chapter 395 of the Local Government Code.

PRESENTER: Caroline Waggoner, City Engineer

SUMMARY:

The Council is being asked to conduct a Public Hearing to consider 1) land use assumptions, 2) capital improvement plans for water and wastewater, and 3) impact fee rates for water and wastewater. No Impact Fee amounts will be adopted with this agenda item. Staff will be seeking direction on how to proceed with the ordinance that actually adopts the fee amounts that is planned to be brought back to Council at the next City Council meeting.

GENERAL DESCRIPTION:

In September, 2001 the state legislature passed Senate Bill 243 which describes the procedure all municipalities shall follow to implement an impact fee. An impact fee is defined as a charge or assessment imposed by a political subdivision against new development in order to generate revenue for funding or recouping the costs of capital improvements necessitated by and attributable to such development.

The city has been collecting water and wastewater impact fees on new service connections since June 1990 in accordance with state law. State law requires those cities collecting impact fees to review their land use assumptions, capital improvement plans and impact fees every five (5) years and update if necessary. As such, the maximum time frame between updates is five (5) years. The last update to the City's Impact Fee Program was performed in March 2010.

On September 28, 2015, the City Council awarded a Professional Services Agreement to Freese and Nichols, Inc. (FNI) for updating the City's Water/Wastewater Master Plan and updating the Impact Fee Program. These two studies are a major portion of the Capital Improvement Project identified as the "Water/Wastewater Master Plan, Rate Study & Impact Fee Update" (Project No. UT1602).



An Impact Fee Program consists of three (3) major components: 1) land use assumptions, 2) capital improvement plans, and 3) impact fee rates. All of these components have been reviewed and approved by the City's Capital Improvement Advisory Committee (reference Attachment 1). Relative to the City of North Richland Hills, these items are specifically defined as follows:

1. Land Use Assumptions

Land use assumptions are exactly that – the assumed future use of land throughout the city. The land use assumptions are formulated based on growth trends, population projections and development patterns.

The basis for many of these assumptions is rooted in the city's Comprehensive Land Use Plan. This plan represents the type of development the city is expecting to occur within its city limits. For Impact Fee Program purposes, the time period into the future that is considered is the next 10 years. The City Council most recently fully updated the Comprehensive Land Use Plan in 2007, and subsequently amended it in 2009 with the adoption of the Transit Oriented Development districts. Another comprehensive study is currently underway.

Another significant part of the land use assumptions are the population projections. The city had a total 2010 population of 63,343. The following table illustrates the historical population data:

Year	Population	% Growth
2010	63,343	-
2011	63,490	0.23%
2012	63,780	0.46%
2013	64,240	0.72%
2014	65,690	2.26%
2015	66,433	1.13%
Average		0.96%

As cities approach build-out, the growth rate tends to slow. The 2016 base year population is approximately 67,176. For the future 10 year population projection used to calculate impact fees, an average yearly growth rate of 1.29% was determined to be a reasonable rate at which the city can be expected to grow.

This rate equates into a 2026 population of 76,412, which is a net growth of 9,236. The growth rate of 1.29% was determined from recent population data provided by the North Central Texas Council of Governments. This data has been broken down into various sectors throughout the city. From this, each sector (termed as a Traffic Survey Zone) was analyzed in terms of its growth potential relative to the Comprehensive Land Use Plan over the next 10 years.

The last item comprising the land use assumptions is the future 10 year development of non-residential property. Essentially, the development of commercial acreage is considered for this calculation. The developed commercial acreage for 2016 is 1,862 acres. This number is anticipated to increase to 2,135 acres in 2026, a net growth of 273 acres. This increase in developed acreage is primarily projected in both Transit Oriented Development districts.

2. Capital Improvement Plans for Water and Wastewater

These plans represent the capital improvements that are required to provide water and sanitary sewer service to the areas of the city that are projected to develop during the next 10 years (through 2026).

The specific water infrastructure projects in the Capital Improvement Plans for Water and Wastewater, including the costs attributable to future development, are indicated in the following Impact Fee study in Tables 3-3 and 3-4.

3. Impact Fee Rates

The statutory provisions governing impact fees are contained in Chapter 395 of the Texas Local Government Code. This chapter states that the maximum impact fee may not exceed the amount determined by dividing the total cost of capital improvements needed by the total number of service units attributed to new development during the impact fee eligibility period, less a credit to account for water and wastewater revenues and property taxes used to finance the capital improvements. The law allows this credit to be equal to one-half ($\frac{1}{2}$) the maximum calculated impact fee. For example, if the maximum calculated fee was \$2,000, then the credit would be half of \$2,000, which is \$1,000.

For the current Impact Fee Program, staff asked FNI to calculate the maximum allowable impact fee rates. Staff desired this information because the approved impact fee rates can be any amount up to this maximum amount. Staff wanted to be provided with the big picture so that this information could be forwarded to the Council when setting the eventual impact fee rates. Once these costs are defined, a maximum calculated fee as indicated in the previous paragraph can be determined.

The maximum allowable impact fees for both water and wastewater are indicated in the table below:

Cost Item	Water	Wastewater
Capital Improvement Costs	\$ 13,474,237	\$ 7,578,307
Projected 10 Year Growth (equated into Service Units)	3,627	3,120
Maximum Impact Fee	\$ 3,716	\$ 2,458
Maximum Allowable Impact Fee per Service Unit	\$ 1,858 (\$ 3,627 X ½ = \$ 1,870)	\$ 1,215 (\$ 2,458 X ½ = \$ 1,229)

The current impact fee rate per service unit is \$1,330 for water and \$363 for wastewater. This table indicates the maximum allowable impact fee per service unit is considerably greater than the fee that is currently being charged. Note that the proposed new maximum impact fee does not include financing costs although Chapter 395 of the Texas Local Government Code allows cities to include this cost in the impact fee calculation. The city has not included financing costs in previous impact fee updates.

A comparison of the maximum allowable impact fee for both water and wastewater and the current impact fee rates are indicated in the table below:

Cost Item	Water	Wastewater
Maximum Allowable Impact Fee per Service Unit	\$ 1,858	\$ 1,215
Current Impact Fee Rate per Service Unit	\$ 1,330	\$ 363

The calculated impact fee rates are approximately forty percent (40%) higher than the existing rates for water and over three hundred thirty percent (330%) higher for wastewater. Staff is highlighting this information because of the concerns expressed by the Capital Improvements Advisory Committee when the CIAC provided its recommendation to the City Council. The CIAC specifically recommended that the City Council should approve the updated land use assumptions, the updated capital improvement plans for Water and Wastewater and the calculated impact fee rates. The CIAC further recommended that the Council consider a “phasing approach” for the adoption of the new impact fee rates. The CIAC expressed concerns regarding the impact that increasing development fees might have on the development community.



City Council can recommend full implementation of the proposed maximum impact fee per service unit, a reduced impact fee amount, or perhaps a phased implementation of the increase in impact fees.

The table below shows a phasing scenario whereby the rates are incrementally increased over a two year period with a 1/3 increase in rates beginning with the adoption Year 1 (January 8, 2018 – January 7, 2019), then increasing twice more by 1/3 to arrive at the full rate in Year 3 (January 8, 2020 – January 7, 2021). This phased implementation is consistent with the City of Fort Worth's recent impact fee changes which became effective in April 2017. Note that the impact fee rates for any given property are based on the effective date of that property's plat. For example, if a property was platted in 2015, the rates under the previous study would be assessed, and not the new rates as proposed in the current study.

Year	Water	Wastewater
Year 1 (January 8, 2018 – January 7, 2019)	\$1,429	\$685
Year 2 (January 8, 2019 – January 7, 2020)	\$1,644	\$1,008
Year 3 (January 8, 2020 – January 7, 2021)	\$1,858	\$1,330
Year 4 (January 8, 2021 – January 7, 2022)	\$1,858	\$1,330
Year 5 (January 8, 2022 – January 7, 2023)	\$1,858	\$1,330

As mentioned in the summary, Council is not being asked at this time to adopt the North Richland Hills Impact Fees. The table above is an illustration showing what the fees would be if a similar approach is used in which the fees were phased previously.

RECOMMENDATION:

Staff is seeking City Council guidance on impact fee rates and implementation to be included in an Impact Fee Ordinance to be considered at the next City Council meeting.