

Development Fees and Charges

A study of selected fees and charges imposed by the City of Columbia, MO

FISCAL REVIEW SERVICES

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Executive Summary

This study focused on the municipal fees and charges imposed on new development within the City of Columbia.

- ***Increases in development costs in Columbia***

Over the past several years, the City of Columbia has increasingly relied on developers to fund new infrastructure. From 1990 to 2010, the development fees to construct a 2,000 square foot home, excluding exactions, increased 711%; an average of 34% annually! Currently, development fees imposed by the city are approximately \$3,714 for an average new home and infrastructure costs borne by developers are an estimated \$28,000, for total development fees and charges of \$31,714 per home (\$200,000 home w/ 2,000 square feet, not including any fees or charges imposed by Boone County). These fees and costs are invisible to homebuyers who generally do not know what kinds of fees were levied against developers or how much of the costs have been passed on in the form of higher home prices.

- ***Accuracy and completeness of information presented to City Council***

Fee increases have occurred mostly through changes to city ordinances and city policies. Upon review of the process for changing ordinances, it appears the City Council was not always given accurate and complete information upon which to base their decisions. The process begins with the filing of a bill. City administration provides a fiscal impact analysis on bills filed with the City Council. The purpose of the analysis, termed a "fiscal note", is to inform Council members of the projected financial impact of a bill prior to taking a final vote. In the case of B328-05, Water service change (August 2005), the fiscal note stated there would be no impact to City funds, when in fact the City anticipated collecting an additional \$311,000 from developers and had budgeted for the increase in revenue.

When the City Council considers fee increases, they should be privy to a needs assessment, or thorough examination of the need for the fee increase, taking into account any excess capacity. There was no such document filed with two bills reviewed. Development fees should be collected to offset costs in the particular subdivision or development under consideration, not the population in general. Raising fees to cover costs associated with paying bonds, as was done in August 2003 with the City sewer utility fee increases (B274-03), appeared to be a revenue-raising strategy. A fiscal impact was projected of \$250,000 in increased user revenue and \$120,000 in increased connection fees. No correlation was documented in the fiscal note between any rise in costs for new connections and the proposed increase in connection fees. City staff simply stated they needed to

raise revenue to cover bond payments and also noted the fee was lower than other cities they had surveyed.

More recent matters presented to the City Council contained sufficient information regarding anticipated revenues and expenditures.

- ***Lack of documentation of infrastructure contributions by developers***

In addition to changes in City ordinances and policies, the City has increased their reliance on developers to fund infrastructure directly, outside the City budget process and outside the public view. The City was not able to produce records regarding the extent to which developers pay for infrastructure such as streets, sidewalks, electrical, sewer, land, etc. A Texas-based consultant estimated the value of such contributions at more than \$200 million over ten years. At an average \$20 million annually, this is by far the largest component of developer contributions to City infrastructure. These costs drive up the price of a new home in Columbia by an estimated 14%. Considering the magnitude, the City should track the value of the infrastructure provided by developers. An accounting of contributions by developers would enable the City Council to make more informed decisions regarding future fees and charges imposed on developers. Recently, an effort was made in this regard, through the preparation of a report, released by the city, indicating the extent to which roadways, sanitary sewer and water mains were constructed by private contractors and public entities.

- ***Growth of development fees in comparison to growth in City spending for utilities and city utility revenues***

Increases in fees and development charges should bear some resemblance to increases in the City's operating costs and capital improvement expenditures. Clearly, the increase in development charges over the five years ended September 30, 2004 outpaced growth in the City's Utility Funds' revenue and expenditures. What is most interesting to note is the low rate of growth in Utility Funds' annual spending for Capital Improvements during this time. During the same time period, contributions by Developers, through fees, charges and infrastructure, increased 129%. More recently, a larger portion of Enterprise Fund revenues has been devoted to capital improvements.

- ***Although construction in the City was declining during the past four years, development fees continued to rise. In addition, staffing and expenses to carry out permitting and inspections increased when it appears the workload should've been decreasing.***

At a time when development was rapidly decreasing, development fees continued to rise. From the period 2006-2010, residential permits dropped by 81% while the development fees increased 77%. Also during this time, operating expenses and staffing for the Protective Division, the division responsible for permitting and inspections, steadily increased.

far too low to start with

Background

Growth in the community leads to new construction, which in turn leads to the need to construct or expand the City's infrastructure. In some cases an argument could be made that growth in infrastructure influences growth in development. In any event, developers contribute to the infrastructure of the city in a number of ways. In addition to development charges for streets, builders must pay water and storm water connection and building and development fees. Builders and developers also pay for streets, water, sewer, storm water and other improvements within residential and commercial developments.

Development fees, sometimes referred to as impact fees, have been broadly defined to include any "monetary charges imposed by local government on new development to recoup or offset a proportionate share of public capital costs required to accommodate such development with necessary public facilities."¹ Fees imposed by local ordinance are generally calculated to apportion the costs of additional capital facilities required for the new development. They are assessed upon all similar developments, often on a per unit or per square foot basis. The City of Columbia imposes development fees for a host of purposes: water, sewer, storm water, building inspections, electrical, plumbing, HVAC, streets, right of way, etc.

Exactions are payments made by a developer to local governments for the right to proceed with a project. Exactions can include not only development fees, but the dedication of public land, the construction or maintenance of public infrastructure, or the provision of public services. In Columbia, exactions are common in the course of new development.

Historically, cities and counties have relied on property taxes and sales taxes to finance infrastructure for residential development. In time, the new residents would help finance infrastructure of others in the future. Columbia has a sales tax dedicated solely to the funding of capital improvements, as well as using a portion of property tax collections, transportation sales tax collections, general sales tax collections, and user fees.

Recent changes in development fees, though voter approval, and recent changes in interpretation of existing city ordinances prompted the Central Missouri Development Council to seek additional information. To that end, this study presents information on City of Columbia development fees and charges over a period from 1990-2010. It should be noted this study only presents information on City fees and charges and does not examine any fees or charges imposed by Boone County, the State of Missouri or any other political subdivision.

¹ Development Impact Fees: Is Limited Cost Internalization Actually Smart Growth?, Nick Rosenberg

City of Columbia Development Fees

The City of Columbia imposes various fees and charges for new construction and building renovations within the city limits. Building codes are meant to safeguard the public by providing for structural stability, adequate means of egress, a minimum acceptable level of protection to life and property from fire, light and ventilation, electrical distribution and sanitation. All multi-family and commercial building projects go through a formal plan review, permitting and inspection process.

Development Charge is a fee assessed at the time a building permit is issued for new construction, at a rate of .061 per square foot in 2000 & 2001; .10 per square foot in 2002, 2003 and 2004. This fee was raised to .15 per square foot (effective 2/1/06) through a ballot measure in the November 2005 election. Other increases have been phased in over a period of five years, rising to a maximum of .50 per square foot, which is the current rate. Revenue gained from the charge is designated for use to construct collector and arterial streets.

Stormwater development charge is a fee imposed at the rate of .09 per square foot (residential), .16 per square foot (multi family, offices, schools, churches, etc), and .195 per square foot (commercial, industrial) paid at the time a building permit is issued. Per City ordinance, the proceeds from the fee are to be used solely for stormwater management purposes.

Sewer connection fees are charged for any new or expanded use connection to the Columbia public sewer. The fees are collected by the City based on the size of the water meter, currently ranging from a low of \$700 to a high of \$3,200. Water service connection fees currently range from \$760 to \$1,178. Meter charges range from \$588 to \$642.

Electrical and plumbing permits are based on details such as the size of the panel, number of circuits, number of fixtures, number of drains in the building project, etc. Mechanical permits are based on the estimated cost of work on the building project.

City Fees on 2,000 square ft. home: 1990, 2006, 2010

In 1990, the City development fees to construct a 2,000 square foot single-family home in the City of Columbia were approximately \$458. The City fees for a similar home in 2006 were \$2,102, and in 2010, \$3,714. This represents a 359% increase, or an average annual increase of 22.44%, from 1990 to 2006. From 2006 to 2010, fees jumped another 77%.

FEE	Fees on 2,000 sf home 1990**	Fees on 2,000 sf home 2006*	Fees on 2,000 sf home 2010*
Building Permit (per square foot)	\$75.00	\$102.60	\$102.60
Plumbing Permit	\$25.00	\$48.60	\$96.12
Electrical Permit	\$4.00	\$35.64	\$51.84
HVAC permit	0	\$16.74	\$40.00
Right of Way permit	\$1.00	\$10.00	\$10.00
Road Devel charge (per square foot)	\$122.00	\$300.00	\$1,000.00
Stormwater charge (per square foot)	0	\$180.00	\$180.00
Sewer Connection (3/4")	0	\$400.00	\$800.00
Water Connection	\$180.00	\$560.00	\$760.00
Water Meter	\$31.00	\$330.00	\$588.00
Temp Electric Serv	\$20.00	\$75.00	\$75.00
Fuel Gas Permit	0	0	\$10.80
TOTALS	\$458.00	\$2,102.00	\$3,714.36

*From City of Columbia Protective Division

**Estimated based on applicable fees in force during 1990.

within large developments

Exactions

By far, the largest portion of developer contributions to the City is attributed to exactions. The City does not account for or track the dollar amount developers spend on streets & sidewalks, electrical lines, storm water, water lines, sewer, etc. The city also does not track the value of land donated by developers. The amounts expended by developers on behalf of the city are not reflected in the city budget and are not available to the public. However, a recent report by the City of Columbia Planning and Development Department indicated the following infrastructure installed/added to inventory by type and year:

Infrastructure Installed/Added to Inventory by Type and Year

Source	2005	2006	2007	2008	2009
Roadway (in miles)					
Private	20.6	20.0	9.1	3.3	2.8
Public	2.4	0.2	2.9	1.1	—
Sanitary Sewer (in feet)					
Private	185,073	47,550	101,531	50,426	27,331
Public	2,580	84,176	—	17,646	9,935
Water main (in feet)					
Private	21,544	27,645	28,004	19,092	4,764
Public	3,292	1,345	34,258	11,411	620

Source: City of Columbia Public Works Department & City of Columbia Water & Light Department as taken from 2010 annual Development Report

According to a 2005 study conducted by Texas-based Impact DataSource, over the years 1994 to 2004, local developers and builders funded an estimated \$201.5 million in on-site infrastructure improvements, such as streets, water, sewer, storm water and other improvements. This estimate was prepared by examining a sample of residential and commercial developments within the City and determining the average infrastructure expenditure as a percentage of assessed valuation of the new property. The average during this ten-year period was just over \$20 million annually. The expenditures for the City's Enterprise Fund Capital Projects total around \$23 million annually. Developers fund nearly as much in capital improvements for the City, as do the City's enterprise funds. Total estimated amount of infrastructure improvements funded by developers, as a percentage of the value of new construction (residential) is listed below:

Streets 8%

Sewer	2%
Water	2%
Stormwater	2%
TOTAL	14%

Nonsense

The process for funding infrastructure projects related to development has been a source of debate, locally and nationally. Those opposed to placing the burden on developers argue the increased number of users, and resulting revenue and increased economic activity, would, over time, pay for the infrastructure. On the opposite end of the spectrum, some believe city funds should only be used to pay for infrastructure repair and replacement for existing systems.

Procedure for Raising Fees

The City's procedure for increasing fees typically begins with a bill introduced by the City Council. The bill is read the first time at a public meeting of the City Council. At least one week elapses before the bill is read the second time; it may be third read and passed at the same meeting. Every bill has a public hearing before final passage, and may have an additional hearing if amendments are added. The bill is accompanied by a "fiscal note" which states the financial impact to the city for the following two fiscal years.

The City should take a number of steps prior to imposing or increasing development fees. They should conduct a thorough public facilities needs assessment prior to passing the fee ordinance. The assessment should be available for public review and comment. The assessment should take excess capacity into consideration. The costs should be fairly allocated (proposed development paying only its share of the cost of improvements). The amount of the fee should be proportional to the impact of the units being created.

The fiscal note for B274-03, Sewer Utility Fee Increases, dated August 8, 2003, advised the Council that fee increases were necessary to meet current bond obligations and to operate and maintain the sewer utility. To meet the needs, the fee increases were to be distributed between user rates, which affect every customer, and connection fees that would result from new development demands on the system. The monthly service rate to all customers increased 4.6%. The connection fee charged to developers increased 33.3%. In total, the rate increase to all customers was expected to generate \$250,000 in additional revenue, while the connection charge was expected to generate \$120,000, as reported in the fiscal note. These increases appear disproportionate. The reason for the fee increase was simply that other comparable cities were charging more and there was a need to raise revenues to meet current bond

*Not necessarily -
The fees may have been
significantly lower in the first place*

obligations. There seemed to be no correlation between an increase in cost to connect new construction and a need to increase fees.

The fiscal note for B328-05, Water Service Change, dated August 9, 2005, advised the Council that the proposed bill would not change charges assessed but would implement the same policy that was in place for sewer connection on services larger than one inch. It also designated the developer as responsible for preparing the site for connection and providing restoration of the site upon completion. In effect, the fiscal note stated there was "no impact". According to an internal memo from City administration, this appears to be incorrect. In fact, the bill was written by the Engineering staff so they would feel comfortable in charging a meter box and appurtenance fee of \$142 per connection, which they had not previously been applying. This, in fact, created a fiscal impact for the City by increasing development fee revenues for water connections by 19%, or \$311,000. The Executive Summary and Fiscal Impact statement filed with the bill failed to convey this change. The bill was heard in conjunction with the annual budget hearings. Taken the manner in which it was presented as a "no impact" bill buried in the details of the annual budget, the City Council and local citizens may not have realized the potential impact of the change.

except that we may have fallen behind on old bond payments because we were not charging enough to new construction.

It should be noted that in more recent actions, revenues were appropriately stated in the comments given to city council members for review.

In some cases, fees were raised by vote of the people, such as the Development Charge which rose from .10 per square foot and phased up to .50 per square foot pursuant to a ballot measure in the November 2005 election. For ballot measures, the City disseminates information to the general public through public hearings, the media and other means.

Occasionally, the City raises developer costs simply by a change in interpretation of existing city policies. For instance, a policy change related to utility placement in new subdivisions (underground electric) was estimated by one developer to cost an additional \$2,500 per living unit. In their document titled, "Electric Capital Improvement Projects-Five Year Program-Description of Projects," city officials stated typical costs for underground construction can easily exceed costs for overhead by a factor of three or four. Prior to implementation, a thorough analysis of the impact of such a change should be performed, as well as opportunity for public input.

Historical Data and Comparisons

Development Fees and Contributions by Developers

Information derived from City records and from estimates reveals the historical ten-year collection of various development fees and contributions as illustrated in the following chart:

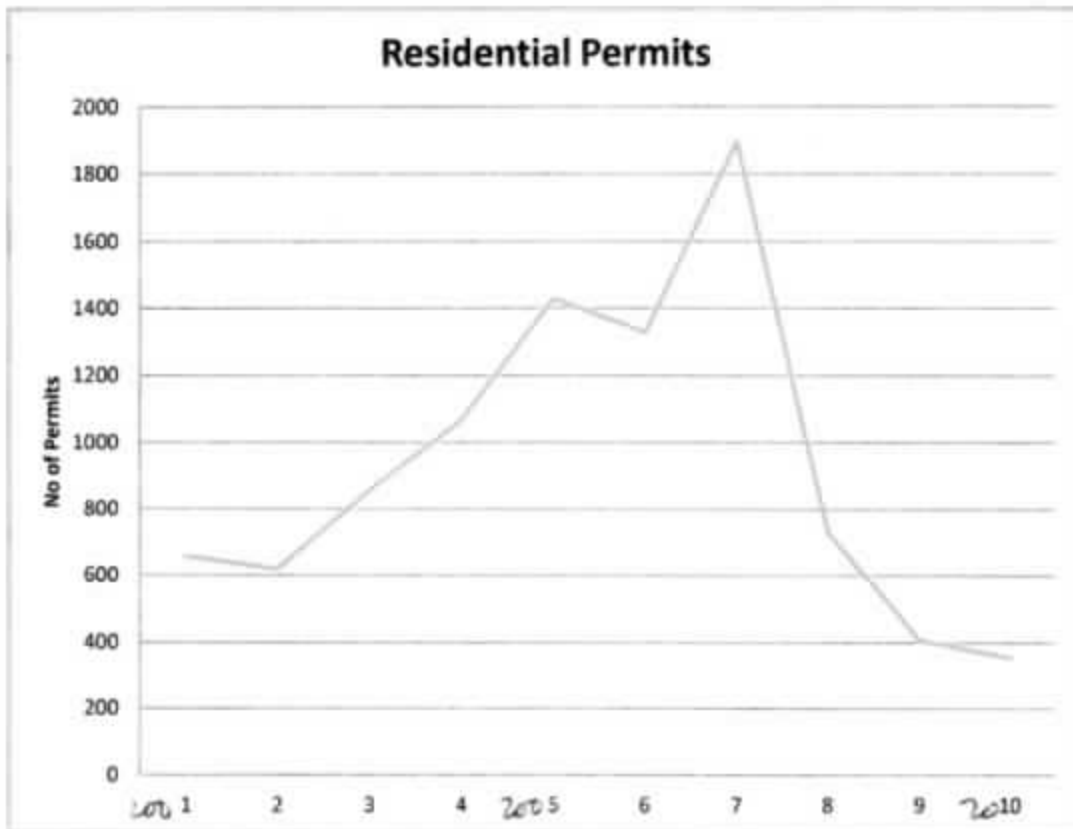
Year	Permit Fees	Development Charges	Sewer Connection Fees	Stormwater Development Charges	Developer Contributions *
2000	\$451,300	\$190,700	\$286,500	\$389,500	\$15,207,900
2001	\$452,000	\$194,000	\$271,300	\$381,700	\$17,933,900
2002	\$468,400	\$197,700	\$302,000	\$324,200	\$24,448,400
2003	\$716,500*	\$488,300	\$573,800	\$598,800	\$30,689,900
2004	\$509,100	\$527,000	\$775,600	\$539,100	\$37,460,700
2005	\$961,400	\$543,200	\$688,800	\$608,000	\$30,030,200
2006	\$827,300	\$676,800	\$740,600	\$629,500	\$30,995,400
2007	\$629,100	\$485,700	\$737,900	\$397,400	\$17,745,700
2008	\$490,700	\$524,500	\$336,500	\$371,800	\$9,742,600
2009	\$369,200	\$368,500	\$341,000	\$200,300	\$7,761,000

*estimated based on percentage developed by Impact DataSource pursuant to a sampling of development projects. Developer contributions are not paid directly to the City, but are donations of infrastructure improvements and other capital assets.

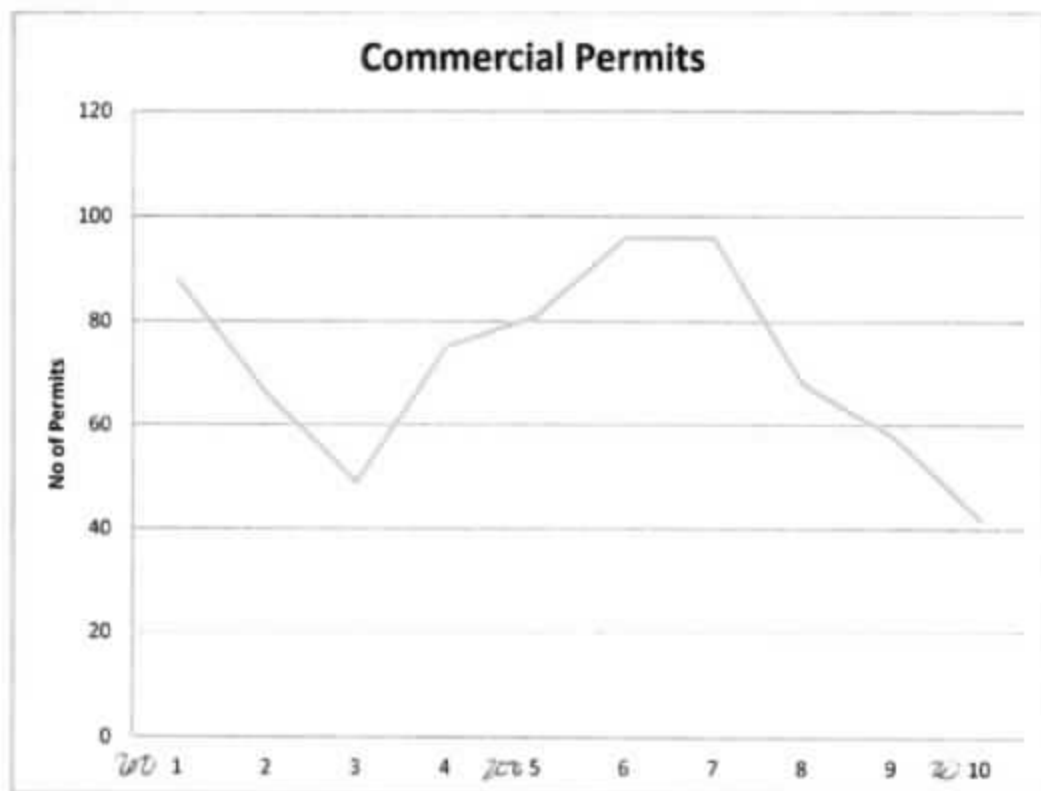
Any review of development fees and charges should consider not only fee increase, but the level of construction. The 2010 Annual Development Report, prepared by the Columbia City Planning and Development Department and issued by the Mayor's office, states "...the pace of development within the City of Columbia over the past five years has been on a steady decline; however this appears to be stabilizing at present."² The report went on to state, "overall, residential permitting activity since 2005 has seen a 230% reduction." City collections of fees and charges, as well as estimated developer contributions, were affected by the reduction in the number of units constructed, as well as the increase in fees per unit.

The following graphs depict the trends in construction in the City of Columbia over the past ten years:

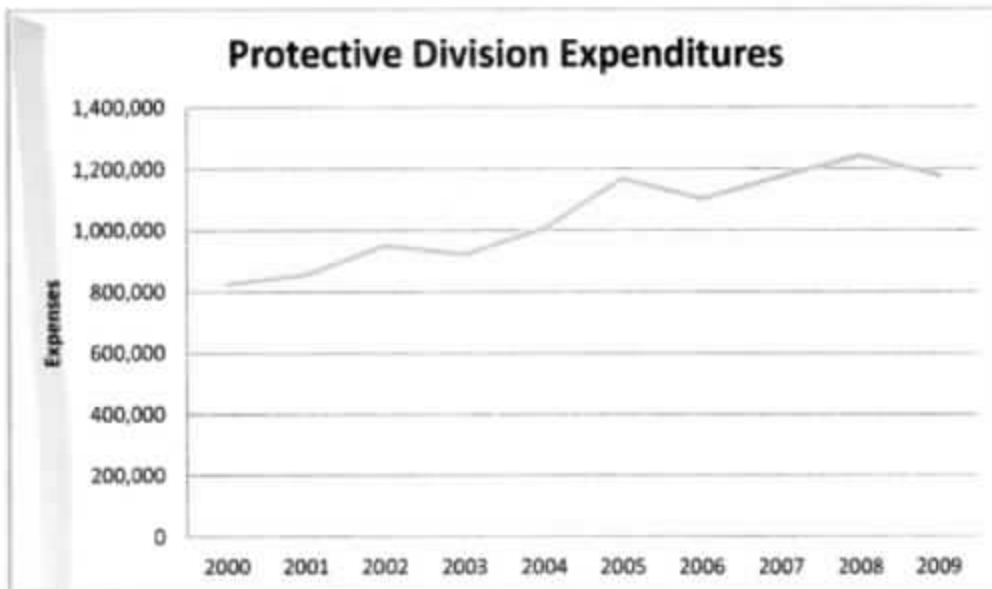
² City of Columbia 2010 Annual Development Report- "Exploring the Pace, Pattern, and Cost-Benefits of City Growth"



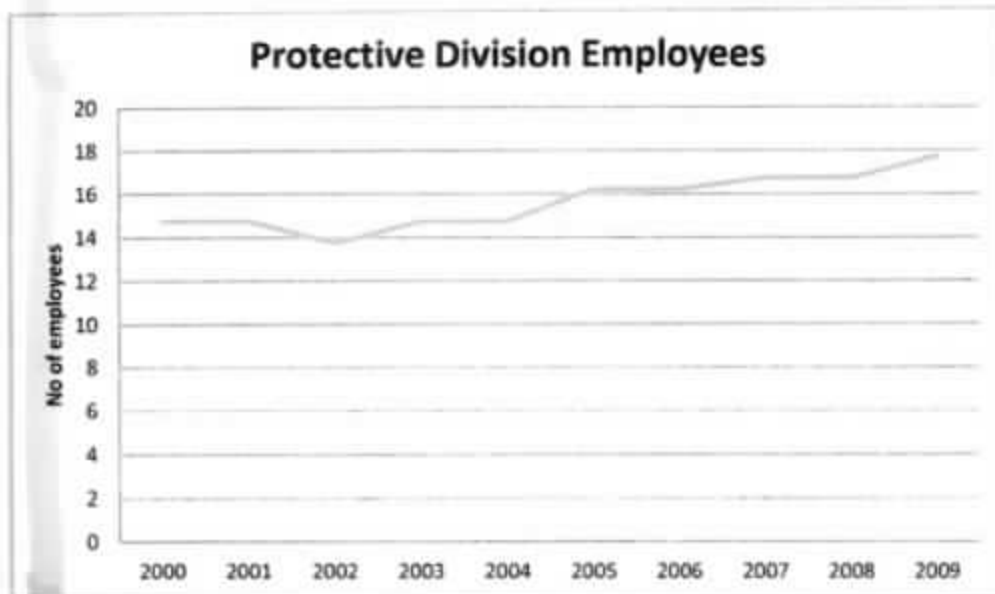
Commercial building followed basically the same trend as residential, showing a sharp decline in 2007, 2008 and 2009.



Although the workload was decreasing significantly, there was no indication of any staff reductions or budget cuts within the division that issues the permits and performs inspections. In fact, during the years 2007-2009, when development decreased dramatically, the Protective Division staffing and expenditures actually increased.



- This is a very good question
- ~~Why~~ Was there waste/slack in this department?



Utility Capital Projects and Revenues

The City's Utility Funds' annual operating revenues and expenditures increased by 77% from 2000 to 2009. Spending from Utility Funds for capital improvements remained steady for approximately five years, then grew to an annual increase of 54% (2000-2009). Columbia's City Utility Funds budgeted revenues, operating expenditures and capital projects expenditures for the ten years ended 9-30-2010 are depicted in the chart below.

Year	Enterprise Capital Projects Expenditures	Enterprise Fund Revenues	Enterprise Fund Expenditures
2000	\$15,649,200	\$101,244,000	\$90,927,000
2001	\$14,159,000	\$115,195,000	\$94,412,000
2002	\$15,400,800	\$118,833,000	\$96,150,000
2003	\$15,649,200	\$117,539,000	\$101,630,000
2004	\$15,818,700	\$126,220,000	\$106,644,000
2005	\$20,787,000	\$148,849,000	\$121,276,000
2006	\$31,868,000	\$162,718,000	\$138,536,000
2007	\$39,133,000	\$175,795,000	\$148,296,000
2008	\$29,042,000	\$176,491,000	\$154,624,000
2009	\$24,167,000	\$179,641,000	\$160,732,000

Source: City of Columbia Annual Budgets

Sources of Information

- Comprehensive Annual Financial Reports, City of Columbia, 1984-2009
- Annual Budgets, City of Columbia, 1984-2010
- Ten Year Trend Manuals, City of Columbia, 2000-2010
- Columbia City Council Meeting Minutes
- Missouri Revised Statutes
- City of Columbia Ordinances
- A Report of the Impact of Growth and Development in the City of Columbia and Boone County, Missouri Over the Past Ten Years, 1995-2004, Impact DataSource, August 1, 2005
- Columbia City Finance Department
- Columbia Water & Light Department
- Columbia Protective Division
- Development Impact Fees: Is Limited Cost Internalization Actually Smart Growth?, Nick Rosenberg
- City of Columbia 2010 Annual Development Report, "Exploring the Pace, Pattern, and Cost-Benefits of City Growth", Prepared by the Planning and Development Department

Fiscal Review Services

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Jeanne Jarrett founded Fiscal Review Services in 2003. The company provides consulting in the areas of fiscal analysis, fiscal note preparation, program evaluation, policy analysis and legislative research. Jarrett's experience in state government spans over twenty years, including eight years in management and program evaluation. She was previously the Executive Director of the Oversight Division, Missouri Joint Committee on Legislative Research, where she was responsible for cost estimates on all legislative proposals and, for a period of time, on ballot measures as well. Her office produced thousands of fiscal notes each year on virtually all issues affecting Missouri government. Jarrett also has a strong background in state tax administration, having served in various capacities with the Missouri Department of Revenue. She is a certified public accountant licensed to practice in Missouri and a certified government financial manager.