Madison Parks Division

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DATE: October 24, 2016

TO: Mayor Soglin and Alders Verveer, Rummel, Cheeks, Eskrich, McKinney, and Wood

FROM: Eric M. Knepp, Parks Superintendent EMK

RE: Park Impact Fees

Introduction

The proposed park impact fee ordinance consists of two parts: the Park-Land Impact Fee (replacing the Parkland Impact Fee) and the Park-Infrastructure Impact Fee (replacing the Park Development Impact Fee). The Park-Land Impact Fee is applied when a particular development is unable to, or chooses not to, dedicate land for additional park space. The Park-Infrastructure Fee addresses the need for capital improvements to new and existing parks in response to the additional demand created by new residential development.

Park impact fees are charged to developments using a standard formula based on objective characteristics. The fees charged are based on the specific number and type of units that are constructed and are a one-time charge for a specific development. If the number and type of units increases in the future or change in classification the fees are adjusted accordingly.

Park impact fees are increasing for a variety of reasons, which are explained in detail in the Park Impact Fee and Land Dedication Policy and Public Facility Needs Assessment. In general, the primary reasons for the fee increases are:

1. The level of park service has increased since the last needs assessment update in 2002. This creates a higher proportionate share for new developments.

2. Based on census data the number of persons per unit for certain housing types has increased since 2002. This density increase creates a larger demand on the park system requiring additional infrastructure improvements and park land dedication for a given development unit than in 2002.

For reference, the 2017 Executive Capital Budget includes approximately $81,000,000 in parks-related projects from 2017 through 2022. Of this amount, approximately $18,300,000, or 22.6%, is funded through impact fees. Of note, this does not include large land acquisitions funded from parkland acquisition funds, which are normally budgeted for as opportunities become available.

Proposed Ordinance Changes (Legistar #43500)

The proposed ordinance includes a three-year phasing approach with an 80% implementation in 2017, 90% implementation in 2018 and full implementation occurring in 2019. The proposed phasing approach provides the development community additional time to adjust financing for any pending developments in response to the rate increases. With this schedule, the cost per unit for the combined park impact fees for 2017 would be less than under the existing ordinance.

Impact fees for park infrastructure improvements are required to be spent in the benefit district they are collected in. The proposed ordinance reduces the number of districts from 11 to 5 to provide greater flexibility in funding park infrastructure improvements. The fifth benefit district is funded from 20% of the Park-Infrastructure Fees collected in each of the four districts. Funds from this district can be used for park infrastructure improvements throughout the city.

The State statute that controls how municipalities implement impact fees allows for an exemption for low-cost housing units. The proposed ordinance includes a low-cost housing exemption, with low-cost housing being defined by the City's affordable housing ordinance.

Revenue Analysis

Baseline Assumptions

For the fee projection analysis, some assumptions with regard to annual increases for the Construction Cost Index (CCI) and average square foot land costs are necessary. Based on a five year average, the estimated CCI annual adjustment is 2.5%. The annual land value costs are estimated to increase by 1.5% per year based on City Assessor information for city-wide land values between 2015 and 2016. The 'no change' analysis uses the existing 5% annual inflator for land values. This analysis uses a five-year average for unit counts based upon development that actually occurred. There are significant factors that can influence the rate and intensity of development within the City, including impact fees and other costs to develop, but this provides a framework to at least compare the relative expected revenue from different scenarios. The analysis and forecasting below does not take into account any impact on the elasticity of development from the cost of the impact fees.

Revenue Forecasting Estimates

The Parks Division has completed a basic revenue analysis for four scenarios to provide additional information on the revenue impact on policy choices related to the amount charged under the new ordinance. The attached table and graph provide the details of estimated combined revenue by unit type over the 2017 to 2022 time period for the following four scenarios:

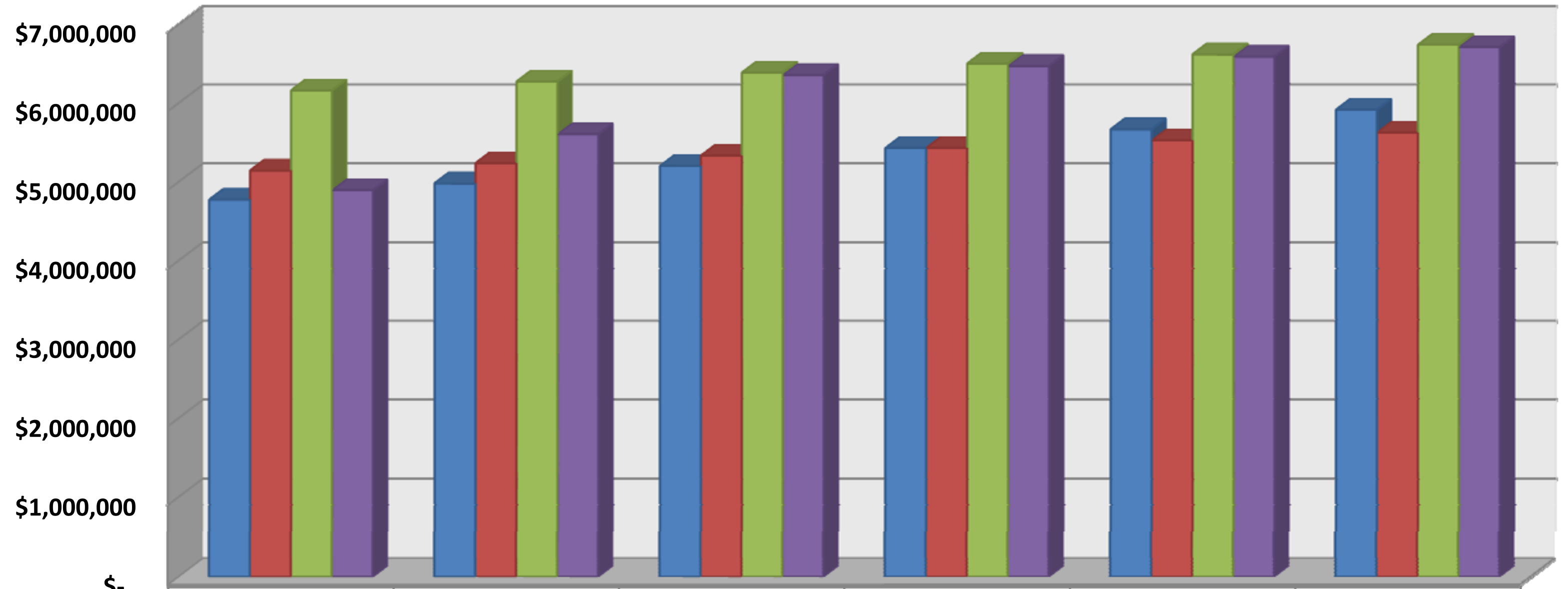
1. ***Analysis of No Change – Assumes existing ordinance is continued for the six year period. This is provided for reference, as City staff strongly believes an update is necessary at this time.***
2. ***Full Implementation Analysis– This would immediately establish the maximum fee levels allowed under the impact fee needs assessment.***
3. ***80/90/100 Analysis – Phases in new rates at an 80%, 90%, and 100% level from 2017 to 2019.***
4. ***85% Cap Analysis – This is a scenario that has been offered as a concept by some members of the development community and would allow for the CCI and land value adjustments, but capping the total base at 85% of what was allowed for under the needs assessment.***

In analyzing these four scenarios, the full implementation would generate the most total revenue to the City, with an estimated total revenue amount of $32.29M over the six year time frame, for an average of $5.38M per year. The three year phase in would produce an estimated $30.26M, which is about 6.25% less than the full implementation and would average about $5.04M per year. The 85% cap would produce slightly more than $26.96M over the six year period, for an average of about $4.49M per year, which is approximately 17% less than the full implementation amount. If no change were to happen, current ordinance would generate about $26.76M, or $4.46M over the six year time period. This is also approximately 17% less than full implementation. Of note, in comparing the analysis of no change and the 85% cap, the 85% cap method would actually provide less total revenue in comparison to existing ordinance if extended out even one more year beyond the six years. This is due to the fact that the 5% annual land inflator is replaced by an estimated value of 1.5% in the new ordinance. Over a ten year analysis, the 85% cap would likely generate $1M-$1.6M less in revenue than existing impact fee rates.

Conclusion

The ordinance and corresponding resolution before the Board (Legistar #43500 and #44788) provide for significantly improved and more equitable impact fee based upon a professionally crafted Public Facility Needs Assessment. The new ordinance contains a three-year phase in that recognizes the need for development to adjust their project financing, and in fact creates a savings for the majority of units in 2017 when compared to what would be paid under existing ordinance. The proposed ordinance also creates an exemption for affordable housing and establishes benefit districts that are balanced on factors such as population, park acreage, future park growth areas, and future development potential. Overall, the proposed ordinance provides a much needed update to the park impact fee ordinance and creates a more equitable framework for utilization of these funds in the future.

PARK IMPACT FEE TOTAL REVENUE ANALYSIS



	2017 Rev.	2018 Rev.	2019 Rev.	2020 Rev.	2021 Rev.	2022 Rev.
NO CHANGE	$4,773,219	$4,981,471	$5,199,375	$5,427,395	$5,666,018	$5,915,753
85% CAP	$5,144,364	$5,237,099	$5,331,614	$5,427,946	$5,526,132	$5,626,210
FULL IMPLEMENTATION	$6,161,293	$6,272,487	$6,385,819	$6,501,332	$6,619,070	$6,739,080
3 YEAR PHASE 80/90/100	$4,892,484	$5,603,084	$6,357,483	$6,472,297	$6,589,319	$6,708,594

PARK IMPACT FEE COMBINED FEE REVENUE ANALYSIS 2017 to 2022

ANALYSIS OF NO CHANGE

UNIT TYPE	UNIT QTY*	2017 Rate**	2017 Rev.	2018 Rate	2018 Rev.	2019 Rate	2019 Rev.	2020 Rate	2020 Rev.	2021 Rate	2021 Rev.	2022 Rate	2022 Rev.	6 YEAR REV	AVG REV
Single-Family Det./Duplex	153.8	$ 4,377	$ 673,145	$ 4,568	$ 702,542	$ 4,768	$ 733,302	$ 4,977	$ 765,490	$ 5,196	$ 799,177	$ 5,425	$ 834,433	$ 3,774,787	$ 629,131
Multi-Family	1362.8	$ 2,792	$ 3,805,475	$ 2,914	$ 3,971,479	$ 3,042	$ 4,145,177	$ 3,175	$ 4,326,937	$ 3,315	$ 4,517,149	$ 3,461	$ 4,716,217	$ 21,337,257	$ 3,556,209
Multi-Family, 4+ Bedrooms	70.2	$ 2,792	$ 196,026	$ 2,914	$ 204,577	$ 3,042	$ 213,525	$ 3,175	$ 222,887	$ 3,315	$ 232,686	$ 3,461	$ 242,940	$ 1,099,116	$ 183,186
Multi-Family, Age Restricted	44.4	$ 1,396	$ 61,992	$ 1,457	$ 64,696	$ 1,521	$ 67,526	$ 1,588	$ 70,487	$ 1,657	$ 73,585	$ 1,730	$ 76,828	$ 347,587	$ 57,931
Lodging House (per bedroom)	26.2	$ 1,396	$ 36,581	$ 1,457	$ 38,177	$ 1,521	$ 39,846	$ 1,588	$ 41,593	$ 1,657	$ 43,422	$ 1,730	$ 45,335	$ 205,108	$ 34,185
TOTAL			$ 4,773,219		$ 4,981,471		$ 5,199,375		$ 5,427,395		$ 5,666,018		$ 5,915,753	$ 26,763,855	$ 4,460,642

FULL IMPLEMENTATION ANALYSIS

UNIT TYPE	UNIT QTY*	2017 Rate**	2017 Rev.	2018 Rate	2018 Rev.	2019 Rate	2019 Rev.	2020 Rate	2020 Rev.	2021 Rate	2021 Rev.	2022 Rate	2022 Rev.	6 YEAR REV	AVG REV
Single-Family Det./Duplex	153.8	$ 5,113	$ 786,307	$ 5,205	$ 800,498	$ 5,299	$ 814,962	$ 5,395	$ 829,703	$ 5,492	$ 844,729	$ 5,592	$ 860,045	$ 4,121,283	$ 686,881
Multi-Family	1362.8	$ 3,471	$ 4,730,919	$ 3,534	$ 4,816,299	$ 3,598	$ 4,903,319	$ 3,663	$ 4,992,015	$ 3,729	$ 5,082,419	$ 3,797	$ 5,174,568	$ 24,796,219	$ 4,132,703
Multi-Family, 4+ Bedrooms	70.2	$ 6,736	$ 472,887	$ 6,858	$ 481,422	$ 6,982	$ 490,120	$ 7,108	$ 498,986	$ 7,237	$ 508,023	$ 7,368	$ 517,235	$ 2,478,553	$ 413,092
Multi-Family, Age Restricted	44.4	$ 2,711	$ 120,369	$ 2,760	$ 122,541	$ 2,810	$ 124,755	$ 2,861	$ 127,012	$ 2,912	$ 129,312	$ 2,965	$ 131,657	$ 630,890	$ 105,148
Lodging House (per bedroom)	26.2	$ 1,939	$ 50,811	$ 1,974	$ 51,728	$ 2,010	$ 52,663	$ 2,046	$ 53,615	$ 2,083	$ 54,587	$ 2,121	$ 55,576	$ 266,317	$ 44,386
TOTAL			$ 6,161,293		$ 6,272,487		$ 6,385,819		$ 6,501,332		$ 6,619,070		$ 6,739,080	$ 32,293,263	$ 5,382,210

80/90/100 ANALYSIS

UNIT TYPE	UNIT QTY*	2017 Rate**	2017 Rev.	2018 Rate	2018 Rev.	2019 Rate	2019 Rev.	2020 Rate	2020 Rev.	2021 Rate	2021 Rev.	2022 Rate	2022 Rev.	6 YEAR REV	AVG REV
Single-Family Det./Duplex	153.8	$ 4,060	$ 624,428	$ 4,649	$ 715,016	$ 5,259	$ 808,834	$ 5,354	$ 823,423	$ 5,451	$ 838,292	$ 5,549	$ 853,447	$ 3,854,606	$ 642,434
Multi-Family	1362.8	$ 2,757	$ 3,756,694	$ 3,157	$ 4,302,360	$ 3,570	$ 4,865,196	$ 3,634	$ 4,952,947	$ 3,700	$ 5,042,383	$ 3,767	$ 5,133,539	$ 23,187,923	$ 3,864,654
Multi-Family, 4+ Bedrooms	70.2	$ 5,348	$ 375,458	$ 6,126	$ 430,045	$ 7,228	$ 507,406	$ 7,360	$ 516,704	$ 7,496	$ 526,185	$ 7,633	$ 535,850	$ 2,384,242	$ 397,374
Multi-Family, Age Restricted	44.4	$ 2,152	$ 95,540	$ 2,465	$ 109,446	$ 2,788	$ 123,778	$ 2,838	$ 126,011	$ 2,889	$ 128,287	$ 2,942	$ 130,606	$ 589,889	$ 98,315
Lodging House (per bedroom)	26.2	$ 1,541	$ 40,364	$ 1,764	$ 46,217	$ 1,995	$ 52,269	$ 2,031	$ 53,212	$ 2,068	$ 54,173	$ 2,105	$ 55,152	$ 249,117	$ 41,520
TOTAL			$ 4,892,484		$ 5,603,084		$ 6,357,483		$ 6,472,297		$ 6,589,319		$ 6,708,594	$ 30,265,777	$ 5,044,296

85% CAP ANALYSIS

UNIT TYPE	UNIT QTY*	2017 Rate**	2017 Rev.	2018 Rate	2018 Rev.	2019 Rate	2019 Rev.	2020 Rate	2020 Rev.	2021 Rate	2021 Rev.	2022 Rate	2022 Rev.	6 YEAR REV	AVG REV
Single-Family Det./Duplex	153.8	$ 4,269	$ 656,526	$ 4,346	$ 668,361	$ 4,424	$ 680,423	$ 4,504	$ 692,717	$ 4,585	$ 705,248	$ 4,669	$ 718,020	$ 3,440,872	$ 573,479
Multi-Family	1362.8	$ 2,899	$ 3,950,076	$ 2,951	$ 4,021,281	$ 3,004	$ 4,093,854	$ 3,058	$ 4,167,821	$ 3,114	$ 4,243,212	$ 3,170	$ 4,320,056	$ 20,702,447	$ 3,450,408
Multi-Family, 4+ Bedrooms	70.2	$ 5,624	$ 394,836	$ 5,726	$ 401,954	$ 5,829	$ 409,209	$ 5,935	$ 416,602	$ 6,042	$ 424,138	$ 6,151	$ 431,820	$ 2,069,351	$ 344,892
Multi-Family, Age Restricted	44.4	$ 2,264	$ 100,502	$ 2,304	$ 102,313	$ 2,346	$ 104,160	$ 2,388	$ 106,042	$ 2,432	$ 107,960	$ 2,476	$ 109,915	$ 526,732	$ 87,789
Lodging House (per bedroom)	26.2	$ 1,619	$ 42,424	$ 1,648	$ 43,189	$ 1,678	$ 43,969	$ 1,709	$ 44,763	$ 1,739	$ 45,573	$ 1,771	$ 46,399	$ 222,349	$ 37,058
TOTAL			$ 5,144,364		$ 5,237,099		$ 5,331,614		$ 5,427,946		$ 5,526,132		$ 5,626,210	$ 26,961,751	$ 4,493,625

* Unit Quantity is the average for all development in the City from 2011 to 2015; this includes units that will be exempt from fees under the affordable housing exemption.

** For rates on the no change analysis, assume 5% increase in fee in leiu of dedication annually. For rates on the full implementation, 80/90/100 phase; and 85 cap analysis assume 1.5% annual adjustment for fee in leiu of dedication. For all analyses construction cost index inflator for the park infrastructure impact fee is set at 2.5%