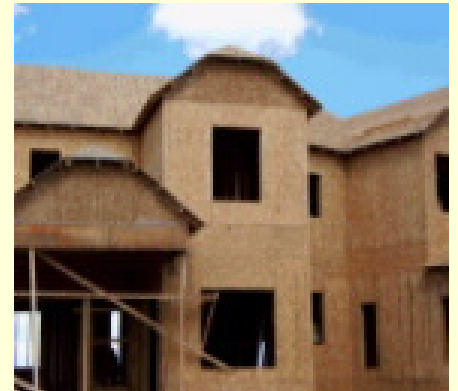




City of Aurora, CO Development Cost Study

Report to the Management and Finance Committee

March 18, 2008





Purpose

Primary Focus: Examine whether new development contributes to a structural gap between the cost of services, infrastructure, and facilities in Aurora and the revenues generated to offset those costs

Other Goals

- (1) Address both capital and operating costs
- (2) Identify both gross and net costs
- (3) Consider fees that might bridge this gap
- (4) Address comparability to other cities
- (5) Identify other cost recovery options

Cooperative Approach Work with the Developer Advisory Group (DAG) to identify issues and work towards agreement whenever possible, but clarify areas of disagreement as well

A Note on the City's Project Team



- ❑ This project is a joint undertaking of the City, several consultants, and the DAG.
- ❑ This report was prepared by the City's project team.
 - The DAG will present its own report.
 - The findings and recommendations contained in this report reflect the professional assessment of the City's Project Manager and incorporates significant input from the other members of the project team.
- ❑ The City's project team includes numerous individuals:
 - Members of a City Manager's Steering Committee who had significant input into the report;
 - Several outside consultants who provided advice, research, and hands-on modeling work to address key issues; and
 - Staff from the City's Budget Office.
- ❑ All of these contributors are listed in the appendices.



Cost Analysis

Primary Findings



1. Each new single-family residential dwelling unit increases Aurora's net revenue/expense gap by \$5,100 (or \$3.49 per square foot).
 - Each multi-family unit increases the gap by \$3,700 (\$3.37 per sq ft).
 - Exempt land uses such as hospitals, schools, and government facilities increase the gap by \$4.53 per square foot.
2. Retail, office, and warehouse development create a net benefit to the City.
 - Six years is the approximate “break even point” when all capital and operating costs are covered by revenues generated from these businesses.
 - Lodging and retail generate the largest net benefit in the long-term.

TABLE 1

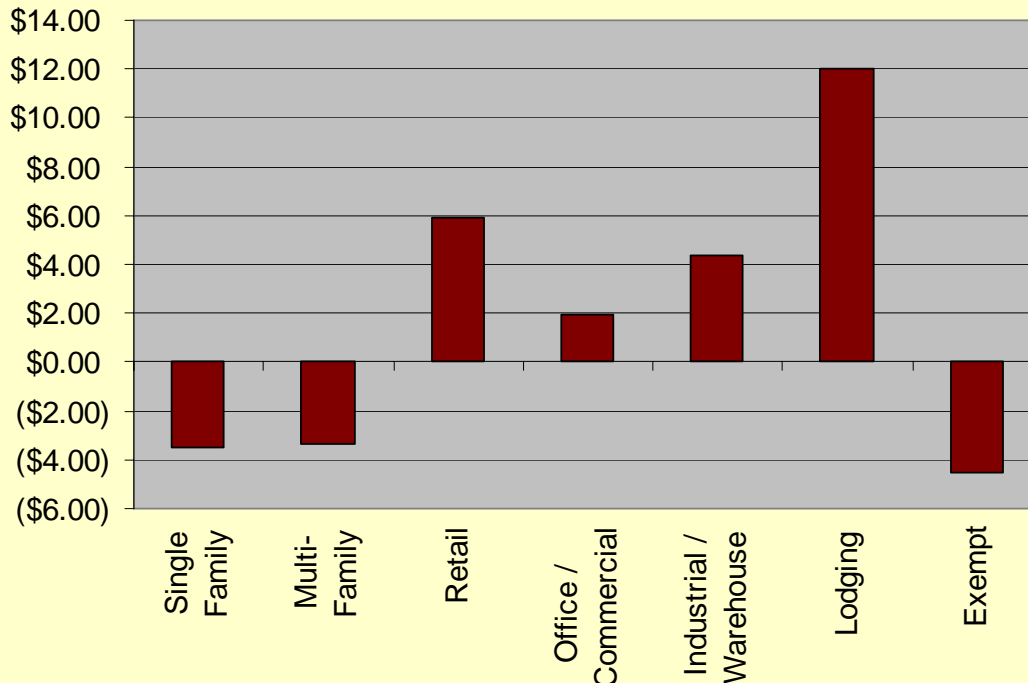
City of Aurora - Development Cost Study



Summary of Operating and Capital Cost Analysis

Land Use	Single Family	Multi-Family	Retail	Office / Commercial	Industrial / Warehouse	Lodging	Exempt
All Costs and Revenues	Per dwelling unit		150,000 sq ft	150,000 sq ft	150,000 sq ft	150,000 sq ft	150,000 sq ft
Total Net Capital (Cost) / Benefit	(\$5,100)	(\$3,704)	(\$1,292,002)	(\$486,834)	(\$174,393)	(\$275,617)	(\$679,946)
Net Operating Benefit over 10 years	n/a	n/a	\$2,174,460	\$773,180	\$825,630	\$2,079,490	n/a
Grand Total Net (Cost) / Benefit in 10 yrs	(\$5,100)	(\$3,704)	\$882,458	\$286,346	\$651,237	\$1,803,873	(\$679,946)
Net (Cost) / Credit per Square Foot	(\$3.49)	(\$3.37)	\$5.88	\$1.91	\$4.34	\$12.03	(\$4.53)

Net (Cost) / Benefit per Square Foot After Ten Years



Operating and Capital Costs: Key Issues



- ❑ The study examined the net difference between the cost of providing necessary services, facilities, and infrastructure to support new development and the contributions made by the development community to offset those costs.
- ❑ The study found that total operating costs and revenue were balanced in 2006.
 - Residential land uses showed a small to moderate shortfall.
 - Commercial land uses showed a moderate surplus.
- ❑ For capital, the study found a net gap for all land use types. However, this shortfall is partially offset by:
 - Land dedications;
 - Capital improvements;
 - Applicable fees and construction use taxes; and
 - Any surplus operating revenue for a given land use.
- ❑ Only residential and exempt show a net capital gap after offsets.

Operating Cost Analysis - Details



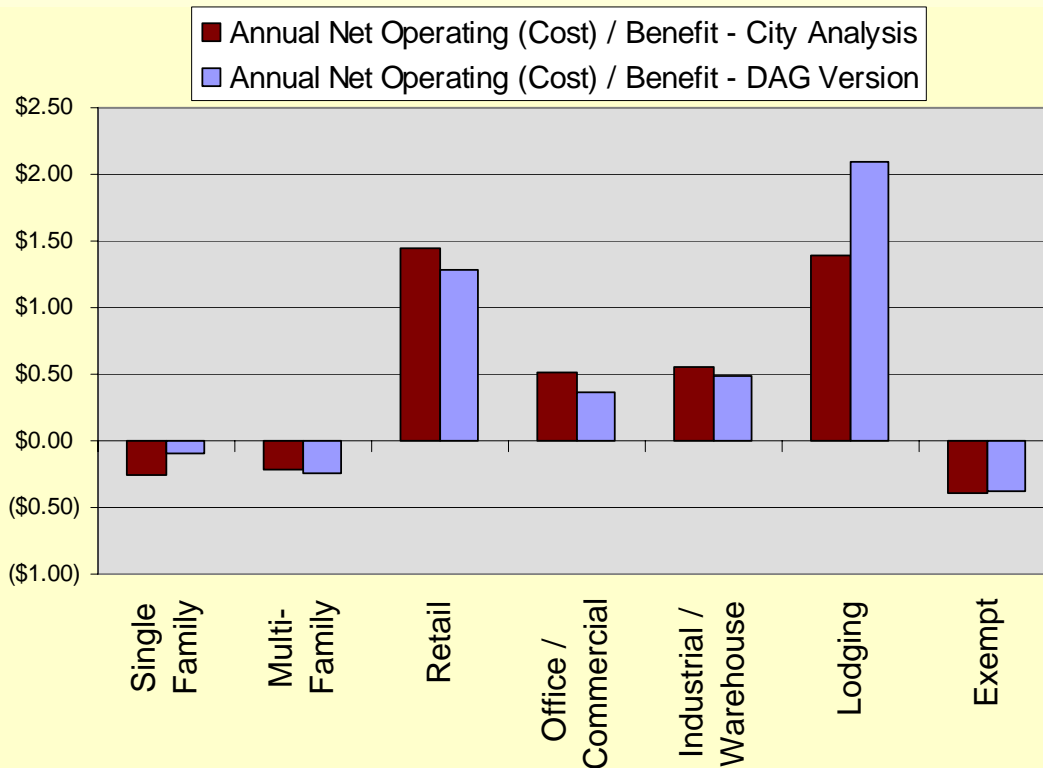
- ❑ Residential and exempt land uses demonstrate an annual shortfall in revenue generation compared to the cost of providing City services.
 - Single family residential net gap is (\$0.25) per sq ft.
 - Multi-family residential net gap is (\$0.22) per sq ft.
 - Exempt net gap is (\$0.39) per sq ft.
 - Commercial has a net positive impact: from +\$0.52 & +\$1.45 per sq ft.
- ❑ The results apply to both existing and new residential dwellings.
- ❑ This outcome is consistent with results identified in other studies.
- ❑ This analysis is strongly affected by the allocation of sales taxes.
 - If more sales tax dollars are allocated to residential development, the resulting gap diminishes.
 - However, even using the DAG analysis (which shows higher sales tax revenues for residential development), single and multi-family homes do not generate sufficient annual operating revenue to offset the one-time capital costs associated with residential development.

TABLE 2 City of Aurora - Development Cost Study



Summary of Operating Analysis

Land Use	(Cost) or Benefit per Square Foot						
	Single Family	Multi-Family	Retail	Office / Commercial	Industrial / Warehouse	Lodging	Exempt
Annual Net Operating (Cost) / Benefit - City Analysis	(\$0.25)	(\$0.22)	\$1.45	\$0.52	\$0.55	\$1.39	(\$0.39)
Annual Net Operating (Cost) / Benefit - DAG Version	(\$0.09)	(\$0.24)	\$1.28	\$0.36	\$0.48	\$2.09	(\$0.38)



Gross vs. Net Costs



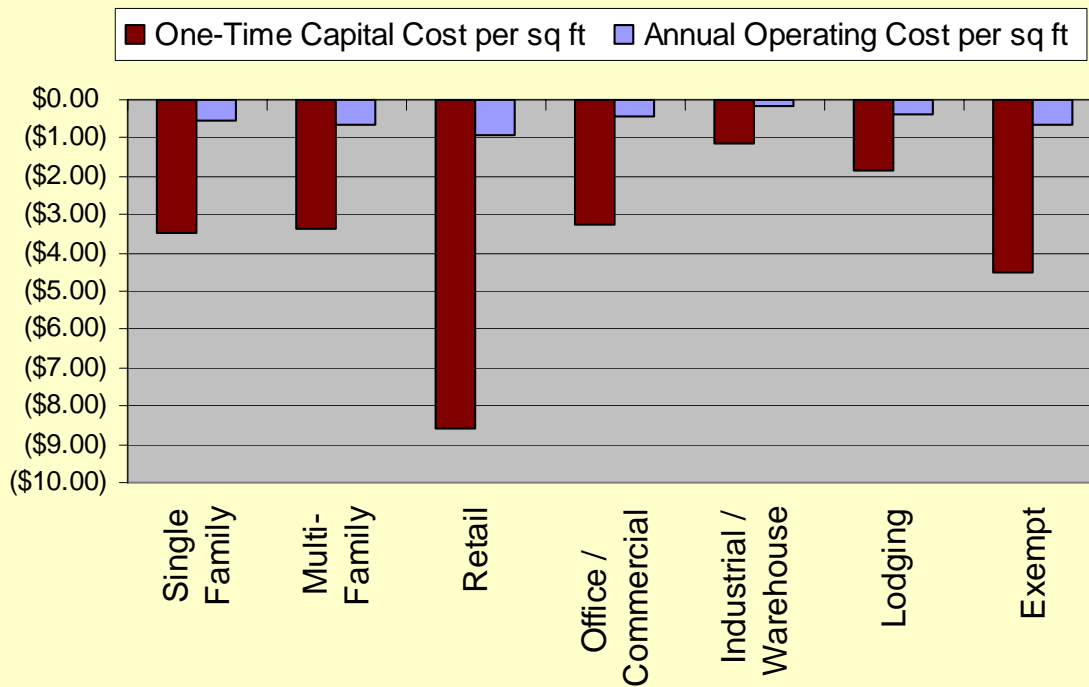
- ❑ At Council's Direction, this study focused on net costs.
 - This is the typical practice for studies of this type and was recommended by the City's technical consultant.
 - This approach recognizes revenues generated by new development and other contributions made to offset the cost of development.
- ❑ However, the study also calculated the gross cost of providing services, facilities, and infrastructure to support new development.
 - Gross costs represent the City's costs of providing services, infrastructure, and facilities before accounting for any offsetting developer contributions.
 - For both capital and operating/maintenance (O&M) costs, the project team excluded cost items that are unlikely to be affected by new development. Examples include:
 - The cost of City's Municipal Center; and
 - Costs related to historical sites.

TABLE 3 City of Aurora - Development Cost Study



Summary of Gross Cost Analysis

Land Use	Cost per Square Foot						
	Single Family	Multi-Family	Retail	Office / Commercial	Industrial / Warehouse	Lodging	Exempt
Gross One-Time Capital Cost per sq ft	(\$3.49)	(\$3.37)	(\$8.61)	(\$3.25)	(\$1.16)	(\$1.84)	(\$4.53)
Annual Gross Operating Cost per sq ft	(\$0.52)	(\$0.64)	(\$0.92)	(\$0.44)	(\$0.16)	(\$0.36)	(\$0.67)



Capital Costs by Service Area



- ❑ The study calculated capital costs for the following service areas:
 - Fire;
 - General Government;
 - Library, Recreation, and Cultural Services;
 - Parks;
 - Police; and
 - Transportation.

- ❑ Transportation costs are the largest component of this analysis.
 - Accounts for 74% of gross capital cost and 42% of net capital cost
 - Includes costs related to city construction and improvement of arterials and collectors along with a 20% share of costs related to state and interstate highway construction in Aurora.
 - The net cost for transportation reflects significant contributions already required from the development community through land dedication, road construction, and payment of various fees and taxes.

TABLE 4 City of Aurora - Development Cost Study



Comparison of Costs by Service Area

Sample Unit Costs		
Department	Single Family Residential	
	Gross Costs	Net Costs
Public Works (Transportation)	\$ (8,908)	\$ (2,120)
Library, Recreation, and Cultural Services	(1,147)	(1,059)
Parks	(695)	(695)
General Government	(590)	(568)
Police	(336)	(330)
Fire	(348)	(327)
Total	\$ (12,025)	\$ (5,100)

Notes on the Cost Model



- ❑ Council directed that the cost analysis use the services, facilities, and infrastructure in place as of YE 2006 as the basis for the study.
 - Under Colorado law, this “historical” approach is considered an appropriate method for establishing impact fees.
 - The City adapted a model recommended by its technical consultant for conducting the historical analysis.
- ❑ The historical approach ensured that the costs incorporated into this analysis were not based on speculative future plans.
- ❑ This approach has been the subject of significant discussion between the City staff and the DAG.
 - The DAG argues that the model overstates net costs.
 - In contrast, the project team documented numerous factors that indicate that the estimate of net costs is conservative (examples in appendices).
- ❑ A more forward-looking approach would significantly alter the results, most likely in the direction of higher net costs.



Impact Fees, Excise Taxes, and Other Potential Cost Recovery Solutions

Rationale for Consideration



- ❑ The gap between the cost of residential development and the associated revenue, has been present for many years.
 - This is a typical issue for cities that are dependant on the sales tax.
- ❑ In prior years, several factors mitigated the gap including:
 - More plentiful federal and state transportation funding;
 - Voter approval of bond issues for new capital;
 - Additional revenue generated by retail and commercial development – especially along the City’s boundaries; and
 - Reductions in services and capital projects during economic downturns.
- ❑ Reasons for addressing the gap now include:
 - Substantially less federal and state transportation funding is available;
 - The City’s sales tax has lost a substantial portion of its “buying power;”
 - Aurora’s population, properties, and infrastructure have aged, all of which tend to increase costs and decrease revenue; and
 - Voters are more selective about which bond issues they support.

Capital Cost Recovery - Impact Fees



- ❑ Option #1 - Impact Fees for Each Service Area (Fire, Parks, etc.)
 - Total Charge \$5,100 per dwelling unit (du) one-time
 - Annual revenue at 1,000 du \$5.0 million
 - Charged to Homebuilder
- ❑ Pros:
 - Cash in hand
 - New residential “pays for itself”
 - Generates significant annual revenue
 - Is a fee - can implement promptly
 - Applies only to residential development
 - Easy to administer – can use existing building permit system
- ❑ Cons:
 - Some members of the DAG oppose the impact fees as presented here
 - May face legal challenge
 - These fees represent a relatively large up-front cost for homebuilders
 - Not easily “bondable” because revenue stream is unpredictable

Capital Cost Recovery - Excise Tax



- ❑ Option #2 - Excise Tax
 - Charge (example only) \$1,000 per year for 5 years
 - Annual revenue at 1,000 du \$1.0 million in 1st year
\$5.0 million by 5th year
 - Charged to Homeowner
- ❑ Pros:
 - Phased-in
 - New residential still “pays for itself”
 - Annual revenue is still significant after initial ramp-up
 - Applies only to residential development
 - Reasonable chance of voter approval
 - More likely to be bondable because of annual payment stream
- ❑ Cons:
 - Is a tax and requires a vote which slows implementation
 - New homeowners may feel “singled out”
 - Creates differences in City tax level for new residents

Capital Cost Recovery

Additional Recommendations



- ❑ The project team recommends indexing any impact fees.
- ❑ The team believes the City should consider suggestions from the DAG related to establishing some “geographic nexus” between collection and use of impact fees.
 - Staff does not recommend an approach that ties fees to a specific development.
 - However, a broader approach may be workable.
- ❑ The team also suggests further discussion of potential credits and / or reimbursement if a developer exceeds the City’s requirements and builds additional infrastructure that meet the City’s needs.
 - Options Include:
 - Credits against the related impact fees;
 - Reimbursement agreements using future revenue from other developments;
 - Special Improvement Districts; and
 - Intergovernmental agreements with metro districts, including agreements with ARI authorities regarding use of the ARI mill levy .

Other Capital Cost Recovery Issues



- ❑ The overarching goal for the City is to eliminate the structural revenue / expenditure gap that Aurora faces.
- ❑ The study's findings show that each new residential dwelling unit adds to that gap – consequently, residential impact fees or an excise tax are appropriate options for addressing the gap.
 - The City Attorney's Office issued an opinion that supports these findings and indicates that the City's proposals fully comply with Colorado law.
- ❑ The project team is not recommending a single fee, but rather identifying a range of options to consider in each City service area (Public Works, Parks, Police, etc.).
 - Colorado law allows impact fees to be established at an amount that is equal to the gross costs of providing city services.
 - However, net costs are the more typical basis for impact fees.

Funding Future Capital Costs



- ❑ This study establishes a range for potential impact fees or excise taxes, which could be used in conjunction with other sources of funding to address some of the City's capital needs.
- ❑ However, impact fees or an excise tax alone will not provide full funding for all capital needs related to new development.
 - The net cost approach limits the cost recovery potential.
 - Capital projects that serve both the existing City and new development would require additional revenue sources.
 - Estimates of future capital needs are significant.
(up to \$380 million over five years)
- ❑ Some options for generating additional funding include:
 - Use of the ARI mill levy;
 - Bond issues; and
 - Citywide fees or taxes.

Cost Recovery for O&M Costs



- ❑ The project team recommends against establishing a fee for O&M costs related solely to new development.
 - No other municipality charges such a fee.
 - Only residential land uses show a shortfall that would justify a fee.
 - Sensitivity testing of the operating models indicate that a portion of the O&M cost that the model assigns to new development may be attributable to a revenue deficiency in the existing City.
 - The operating cost analysis was based on a single year and a balanced budget, which does not address future revenue and expense trends.
- ❑ The team also recommends repeal of the existing Urban Service Extension Fee because it cannot be justified on a net cost basis.
- ❑ The study results suggest that fees charged citywide, such as a street maintenance fee, would be an appropriate alternative to an O&M fee that is solely charged to new development.



Comparability Analysis

Comparability – Key Findings



- ❑ The study looked at all significant City-imposed development costs, including fees, construction use taxes, and dedication requirements.
 - If the City adopted new impact fees or an excise tax based on the \$5,100 net cost for an average home, Aurora’s total development costs would rank third out of eight cities in this sample.
 - Aurora already ranks third out of eight in total development-related costs for single-family units, including Water and Wastewater fees.
 - Excluding Water and Wastewater, Aurora currently falls below the average total cost imposed by the other municipalities in this sample.
 - If Transportation fees are also excluded, Aurora would remain very close to the average for this sample, even with additional fees.

TABLE 5

City of Aurora - Development Cost Study



Summary of Comparability Analysis – Including Transportation and Water

Project Type	Single-Family Residential
Number of units	217 dwelling units
Number of acres	68.1
	Cost per dwelling unit
Broomfield	\$51,591
Castle Rock	\$48,224
Aurora	\$41,495
Thornton	\$37,934
Westminster	\$36,228
Commerce City	\$23,421
Denver	\$20,458
Lakewood	\$19,554
Average	\$34,863
With "Net Cost Recovery" Amount Included	
Amount Added	\$5,100
Total Amount	\$46,595
Ranking	3 (no change)

TABLE 6

City of Aurora - Development Cost Study



Summary of Comparability Analysis – Excluding Water

Project Type	Single-Family Residential
Number of units	217 dwelling units
Number of acres	68.1
Cost per dwelling unit	
Castle Rock	\$23,055
Broomfield	\$21,033
Westminster	\$17,506
Aurora	\$14,696
Commerce City	\$13,878
Thornton	\$13,499
Denver	\$11,944
Lakewood	\$11,252
Average	\$15,858
With "Net Cost Recovery" Amount Included	
Amount added	\$5,100
Total Amount	\$19,796
Ranking	3 (up from 4)

TABLE 7

City of Aurora - Development Cost Study



Summary of Comparability Analysis – Excluding Transportation and Water

Project Type	Single-Family Residential
Number of units	217 dwelling units
Number of acres	68.1
	Cost per dwelling unit
Broomfield	\$15,680
Castle Rock	\$15,109
Westminster	\$12,171
Aurora	\$7,500
Denver	\$7,214
Commerce City	\$6,402
Thornton	\$6,260
Lakewood	\$4,373
Average	\$9,339
With "Net Cost Recovery" Amount Included	
Amount Added	\$3,036
Total Amount	\$10,536
Ranking	4 (no change)



Working Towards A Cooperative Approach: Interaction with the Developer Advisory Group

Summary of Approach



- ❑ In January 2007, M&F approved in-house study with two key reqts:
 - Use of outside consulting assistance to address technical issues; and
 - Active engagement with the development community.
- ❑ Meetings with the City project team and the DAG began in 2007.
 - DAG, City staff, & consultants spent March and April on project plan.
 - Since then, we have met Approximately 23 times (avg of once every other week), and maintained regular weekly check-ins with DAG consultant.
- ❑ The DAG requested two postponements in reporting to M&F.
 - Both requests were intended to give DAG more time to gather information and hopefully help resolve issues.
 - City staff supported both requests as it provided an opportunity refine and finalize the cost analysis and begin working on cost recovery ideas.
- ❑ Project team completed its cost analysis work and presented a final set of materials to the DAG on February 19, 2008.
 - Meetings have continued in the past several weeks to discuss cost recovery alternatives and exchange information on technical issues.



Examples of Issues

- ❑ The DAG / City staff meetings have generally involved very frank discussions of key issues. The list below provides some examples of how the City adjusted the cost analysis to account for concerns raised by the DAG.
 - Subtracted capital costs that are unrelated to new development (e.g. the AMC and historical sites);
 - Eliminated a proposed cost multiplier for non-contiguous growth;
 - Included a “credit” for Building Materials Use Tax, Arapahoe County Open Space Tax, and Conservation Trust Fund contributions;
 - Parks costs that are subject to existing land dedication and parks development requirements are excluded from the cost analysis;
 - Reduced the avg lane-mile cost of an arterial from \$1.4m to \$1.1m; and
 - Recommended no development fee for annual operating costs.
- ❑ The City did not adjust the cost analysis in several other instances when careful review of the data showed that an adjustment would create questionable results.

Cost Analysis – City/DAG Differences



- ❑ The DAG has undertaken its own analysis of development costs using data provided by the City and other sources.
- ❑ The DAG believes new development of all types shows little or no net difference between the cost of development and contributions made by the development community to offset those costs.
- ❑ The primary differences between City & DAG numbers are:
 - The DAG numbers reduce Transportation costs by over \$500 million by excluding regional infrastructure and assuming lower costs for arterial and collector roads.
 - The DAG numbers restate historical developer contributions by using a “credit” for 100% of all construction use taxes paid to the City.
 - The use tax is historically allocated for citywide purposes and is not intended to pay only for the costs associated with a specific development.
 - In some cases, the DAG numbers mix historical average cost and revenue data with data that focuses on recent development.



- ❑ The project team sees other cost recovery recommendations as items that would be applied in addition to any impact fees or excise taxes.
 - As noted earlier, impact fees alone are not a sufficient funding source.
 - Future major infrastructure projects will likely have costs in excess of the historical cost estimates used for this study.
 - Other needs created, in part, by past development must also be addressed.
 - Many DAG recommendations focus on solutions that apply to the entire City – new development should not be exempt from such approaches.

- ❑ In contrast, the DAG has argued that its recommendations on cost recovery should be taken in lieu of any impact fees or excise taxes.
 - However, the cost analysis demonstrates the need to close the gap between the costs and revenues related to residential development.
 - The DAG cost recovery recommendations do not address this goal.

Can Aurora Compete if Fees Increase?



- ❑ The DAG argues that higher fees will make development in Aurora less competitive.
 - The DAG is greatly concerned about current economic conditions.
- ❑ The project team disagrees for several reasons.
 - Aurora has significantly more land available than other cities.
 - Aurora has viable long-term water supplies.
 - Other growing cities (Broomfield, Castle Rock, Westminster) have fees that are comparable to Aurora.
 - The negative economic factors that have affected the construction sector created a dramatic weakening in activity in Aurora even with the City's current, moderate, development costs.
 - These economic factors impact on the cost of construction, the ultimate sale price, and profits significantly more than a fee increase that amounts to 2% of the sale price for an average home.



Questions for M&F



Questions for the Committee

1. Does the Committee recommend forwarding the results of the Development Cost Study to Study Session?
2. Does the Committee wish to recommend consideration of either:
 - a. A set of residential impact fees; or
 - b. An excise tax on new residential development?
3. If the Committee wishes to consider a tax or fees, does the Committee recommend a particular amount?
4. Does the Committee agree with the other recommendations on cost recovery related to:
 - a. Indexing the fees;
 - b. Establishing some geographic nexus between collection and use of impact fees; and
 - c. Exploring options for providing credits and /or reimbursement for developer contributions that exceed the City's requirements?
5. Does the Committee have other recommendations for Council?



Appendices



Additional Steps

- ❑ The last step in the cost analysis process is an independent review to provide a final quality assurance check on the cost models.
 - We expect some minimal technical fixes as a result of this work.
- ❑ The City may also choose to issue a final report after Council completes its deliberations.
 - The report will address all findings and recommendations in detail.
 - Final documentation of essential supporting data for this study will be assembled into a comprehensive backup.
- ❑ The City may ask the DAG to provide input as part of any further examination of additional cost recovery tools.
- ❑ Implementation steps are dependant on direction from Council.
- ❑ Additional consulting assistance may be needed for some steps.

Conservative Cost Estimates



- The City's technical consultants and staff who worked on the study, reviewed all the cost data and identified numerous factors that tend to understate costs. These factors include:
 - A \$20 million reduction in the cost estimate for E-470 crossings;
 - Exclusion of all costs related to median landscaping improvements;
 - Future Transportation costs that are expected to be substantially higher than historical costs as the City must find funding for its share of the FasTracks program in addition to funding a backlog of improvements needed to serve recent and future development;
 - Elimination of the multiplier for non-contiguous development even though such development often drives the need for additional infrastructure; and
 - Use of the historical average size for residential dwelling units, which reduces the per unit fee for new homes by more than 40%.

Aurora Development Cost Study Team



- ❑ Mike Trevithick, Project Manager
- ❑ City Manager's Steering Committee
 - Nancy Freed, Deputy City Manager
 - John Gross, Finance Director
 - Bob Watkins, Planning Director
 - Nancy Bailey, Manager, Office of Development Assistance
 - Bob Rogers, Deputy City Attorney
 - Mike Hyman, Assistant City Attorney
- ❑ City Project Technical Staff
 - Katie Kohn, Budget and Financial Program Coordinator
 - Mary Byer, Management Analyst
 - Amanda Karger, Management Analyst



External Consultants

- ❑ In-house cost allocation modeling consultant
 - Steve Fisher, former Budget Officer for the City of Boulder
- ❑ Technical Consultants: BBC Inc
 - Tom Pippin, Managing Director
 - Adam Orens, Associate
- ❑ Sales Tax Consultants: Economic and Planning Systems Inc
 - Dan Guimond, Principal
 - Nicole Monroe-Lehman, Vice-President
 - Josh Hensley, Senior Associate
- ❑ Quality Assurance Consultants: Maximus Inc (proposed)
 - Anita White, Vice President
 - Additional staff TBD