

Memorandum

REPORT TO: Community Development Board

FROM: Chris Saunders, Community Development Manager
Erin George, Community Development Interim Director

SUBJECT: Review and Recommendation for the 2025 Impact Fee Service Area Report for Water

MEETING DATE: February 24, 2025

AGENDA ITEM TYPE: Plan/Report/Study

RECOMMENDATION: **Consider the Motion:** *Having reviewed and considered the staff presentation, draft service area report, public comment, and all information presented, I hereby find the 2025 service area report for Water meets all requirements and accept the report as the basis for water impact fees and recommend approval to the City Commission.*

STRATEGIC PLAN: 7.5. Funding and Delivery of City Services: Use equitable and sustainable sources of funding for appropriate City services, and deliver them in a lean and efficient manner.

BACKGROUND: The City of Bozeman first adopted impact fees in 1996 and has used them continuously ever since. The State of Montana authorizes local government impact fees through Title 7, Chapter 6, Part 16, [Montana Code Annotated \(MCA\)](#) [External Link]. An impact fee is defined as:

(5) (a) "Impact fee" means any charge imposed upon development by a governmental entity as part of the development approval process to fund the additional service capacity required by the development from which it is collected. An impact fee may include a fee for the administration of the impact fee not to exceed 5% of the total impact fee collected.

(b) The term does not include:

(i) a charge or fee to pay for administration, plan review, or inspection costs associated with a permit required for development;

(ii) a connection charge;

(iii) any other fee authorized by law, including but not limited to user fees, special improvement district assessments, fees authorized under Title 7 for county, municipal, and consolidated government sewer and water districts and systems, and costs of ongoing maintenance; or

(iv) onsite or offsite improvements necessary for new development to meet the safety, level of service, and other minimum development standards that have been adopted by the governmental entity.

In MCA 7-6-1601, Definitions, impact fees are authorized for specifically listed types of facilities including:

(7) "Public facilities" means:

(a) a water supply production, treatment, storage, or distribution facility;

The City uses impact fees to advance the following purposes:

- Infrastructure concurrency of service increase with demand from new development
- Equity in funding capital expansion of certain services
- Public safety
- Remove barriers from development
- Implement growth policy and facility plans by increasing capacity to serve new development
- Cost efficiency from coordinated projects

The Community Development Board has been assigned by the City Commission the duties of the [Impact Fee Advisory Committee](#) [External Link] to review calculation of fees. An element of this duty is to review and recommend on the service area report (SAR).

A key part of the state authorization for impact fees is preparation of a service area report for each fee type. The SAR consolidates key information relating to the future needs for infrastructure, expected means to provide the infrastructure, and the process by which the cost of additional services are assigned to units of new development. A copy of 7-16-1602 MCA that sets required documentation for an impact fee is attached to this agenda item. In addition to the details of the SAR the City also provides required documentation through its [Water Master Plan and Integrated Water Resources Plan](#) [External PDF] and annual capital improvement program and [budgets](#) [External link].

The City updates the SAR at least every four years to help ensure the fees are accurate, reflect current construction costs and service needs, and remain roughly proportionate and logically connected to the development that pays the fees. Annual inflation adjustments are applied on January 1st of each year and do not require an update to the SAR. The City hired TischlerBise, a nationally prominent specialist in impact fees, to support the City in updating the impact fee SAR.

Staff has reviewed the draft SAR prepared by TischlerBise on behalf of the City and finds that the document meets the requirements of state law for a SAR. The SAR is in writing, the document has been provided to the public for review through the Engage Bozeman [website](#) [External Link] as well as the agenda for the Community Development Board meeting and will be in the City Commission agenda. The City has an annual process to update a capital improvement program to schedule construction of public facility capital improvements. As shown in the SAR, actual costs of construction and

reasonable estimate of costs have been used, forecast for future needs are provided, necessary facilities to serve future growth are identified, and the appropriateness of a single service area is established. No maintenance or operational costs are included in the calculated fee. All other necessary elements are also provided.

The City published formal notice in the Bozeman Daily Chronicle on 2/01/2025, 2/15/2025, 3/01/2025 and 3/15/2025 of the public hearings before the Community Development Board and City Commission. A news item was included on the City's website, the Engage Bozeman impact fee update project website was established, several publicly available work sessions and training sessions regarding impact fees have been held during the project, and direct notification to interest groups occurred at the beginning of the project.

The action through this agenda item is specific to the Water impact fee. The City also implements Fire/EMS, Transportation, and Wastewater fees. Updated SARs for Fire/EMS and Transportation were approved and adopted by the Commission in 2024.

The City has adopted various fiscal policies to guide how revenues and expenditures are made. These are included in the City's adopted [budget](#) [external link], see page 175. An example of relevant policy is:

5. User fees and charges will be used, as opposed to general taxes, when distinct beneficiary populations or interest groups can be identified.

User fees and charges are preferable to general taxes because user charges can provide clear demand signals which assist in determining what services to offer, their quantity, and their quality. User charges are also more equitable, since only those who use the service must pay--thereby eliminating the subsidy provided by nonusers to users, which is inherent in general tax financing.

Consistent with this policy the City uses impact fees to fund capital improvements to expand service capacity necessary to serve new development. Also consistent with this policy, impact fees are set only to the amount demonstrated as necessary in the SAR to offset the costs due from new construction. Impact fee revenue can be used to pay bonds for capital improvements that otherwise qualify as an impact fee expenditure. All expenses for operations such as personnel and supplies, maintenance, and capital replacement must come from other user fees, assessments, and taxes as authorized by law.

Most elements of the 2025 Water SAR are very similar to previous SAR although updated data has been used in the forecasts and other calculations.

The data requirements established by state law ensure substantial consistency from one SAR to its successor. The two primary changes are to expand the range of home sizes for which fees are calculated, and integration of revised water demand standards affected by recent water conservation requirements adopted in 2024.

As better data has become available and a greater range of home sizes is being constructed in the community it is appropriate to consider if an improved fit between construction, expected service demand, and fees charged can be established. It is also necessary to keep the range realistic and reasonably descriptive of expected demand. For example, although there is a demonstrated correlation between home size and occupancy the occupancy of a home can never go below 1 regardless of its size. The expanded range more clearly ties a fee to the lower dwelling occupancy expected in smaller units. Service demand is strongly influenced by occupancy therefore this enables a lower fee to be charged for smaller homes. Bozeman has seen a substantial increase in smaller sized homes, especially in the apartment type configuration, over the past few years.

The new SAR includes nine additional size bands to improve fit between fee and demand. A review of building permit sizing for single homes and townhomes over the past 24 months shows that 21% of the homes would have been included in the new size ranges. Staff concludes that this is enough improvement to support using the increased range of sizes. This also supports consistency between fee types as the Fire/EMS SAR and Transportation SAR use the expanded size range. Only 4 homes were in the largest of the new upper range categories. Staff concludes that this small number indicates that it is unnecessary to add further to the upper range at this time. Size ranges can be reevaluated with the next SAR.

The City Commission approved this expanded range with the recent Fire/EMS SAR update and it has been carried forward with this SAR. Staff recommends adoption of the range proposed in the Transportation SAR to maintain consistency with the recently adopted Fire/EMS SAR which included the expanded size range and maintain a best practical fit between construction and fee characteristics.

Since the last SAR, the cost of construction and capital equipment has increased substantially. Offsetting those cost increases has been a change in outdoor water use standards. The new standards are expected to reduce maximum daily demand by 1/3. This is a very substantial change and results in costs for system expansion decreasing for residential properties. This is a one time change and is reflected in the SAR.

For context, a simple memo with information from other communities using impact fees in MT is attached. Each community is distinct and cost of service is not comparable from one community to another. Several community's fees have not been updated recently and therefore do not reflect recent cost

escalation. Since the question of what other communities are doing comes up every time the service area reports are updated staff provides this information for reference.

Impact fees are only one component of a complete water funding system. Operations and maintenance activities cannot be funded with impact fees and no such projects are included in the service area report. Operation and maintenance are funded by the monthly service charges from the water utility. Water rights for new development have addressed through the city's water adequacy provisions for annexation and new development and are not included as part of the water impact fee.

The Community Development Board, in their role as the impact fee advisory committee required by state law, will hold a public hearing on February 24, 2025. TischlerBise who prepared the report will attend remotely.

UNRESOLVED ISSUES: None.

ALTERNATIVES:

1. Accept the service area report;
2. Accept with modifications the draft service area report;
3. Reject the draft service area report; or
4. Open and continue the public hearing on the service area report, with specific request to staff to supply additional information or to address specific items.

FISCAL EFFECTS: The service area report does not expend funds. It does update the costs per unit of new development to ensure fees meet all legal requirements. Subsequent adoption of the SAR by the City Commission will enable continued operation of the impact fee program to offset capital costs from new construction for Transportation functions.

Attachments:

[7-6-1602. Calculation of impact fees -- documentation required -- ordinance or resolution -- requirements for impact fees, MCA.pdf](#)

[Other Communities Memo 9-5-2024.pdf](#)

Report compiled on: February 19, 2025