

**DRAFT**

**Service Area Reports & Impact  
Fee Advisory Committee  
Recommendations**

**December 2024**



MCA 7-6-1602(1) requires a Montana municipality to “prepare and approve a service area report” for each facility for which it wants to charge an impact fee. This document consolidates those reports for the City of Three Forks.

MCA 7-6-1602(2) lists requirements for service area reports. That list is reproduced on the following page with each item checked to indicate that the Council and Mayor have reviewed the statutory requirements for the use of impact fees and determined that their actions, including adoption of a Capital Improvements Program (CIP) based on a buildout analysis, adoption of the service area reports assembled here, adoption of an impact fee ordinance, and the city’s accounting practices for impact fees comply with state law.

### **Facilities Covered**

These service area reports present trial impact fees for Three Forks’ water and wastewater systems, storm water management, transportation, municipal buildings, and fire protection. The Mayor and Council may adopt, or not, any of the proposed fees. The proposed municipal building impact fee must be approved by a 2/3 majority because municipal buildings are not among the facilities specifically listed in MCA 7-6-1601(7).

### **Committee Review**

MCA 7-6-1604 requires that any city wishing to charge impact fees establish an Impact Fee Advisory Committee (IFAC). These service area reports have been reviewed and discussed by the IFAC established on September 12, 2023. The IFAC sent its recommendations to the Mayor and Council on November 20, 2024.

### **These Fees Maximum**

The trial impact fees calculated in these reports are the maximum defensible. The Mayor and Council cannot increase them without new data or changing the assumptions on which they are based. The Mayor and Council may choose to charge lower impact fees because other sources of funding will be used.

### **Administrative Fee**

MCA 7-6-1601(5)(a) authorizes the city to add a five-percent (5%) administrative fee to each impact fee it charges. The Impact Fee Advisory Committee recommended that this fee be adopted at its October 16, 2024 meeting.

### **Contents of Reports**

Each service area report follows a step-by-step process that reflects both the statutory requirements and widely followed best practices for calculating impact fees. That process is described in detail in the appendix.

These reports reflect the understanding of the growth anticipated and the facilities needed to serve that growth embodied in the August 2024 CIP. That understanding will evolve through time. These reports and the impact fees should be updated as it does. The cost figures

given in the CIP and used as a basis for these service area reports are the best estimates possible at the time. Actual costs will vary. The scheduling of improvements in the CIP is subject to change for reasons that include the pace of development, the availability of funds, and even the weather.

**Compliance with Montana Code Annotated, Title 7, Chapter 6, Part 16**

(2) The service area report is a written analysis that must:

- (a) describe existing conditions of the facility;
- (b) establish level-of-service standards;
- (c) forecast future additional needs for service for a defined period of time;
- (d) identify capital improvements necessary to meet future needs for service;
- (e) identify those capital improvements needed for continued operation and maintenance of the facility;
- (f) make a determination as to whether one service area or more than one service area is necessary to establish a correlation between impact fees and benefits;
- (g) make a determination as to whether one service area or more than one service area for transportation facilities is needed to establish a correlation between impact fees and benefits;
- (h) establish the methodology and time period over which the governmental entity will assign the proportionate share of capital costs for expansion of the facility to provide service to new development within each service area;
- (i) establish the methodology that the governmental entity will use to exclude operations and maintenance costs and correction of existing deficiencies from the impact fee;
- (j) establish the amount of the impact fee that will be imposed for each unit of increased service demand; and
- (k) have a component of the budget of the governmental entity that: (i) schedules construction of public facility capital improvements to serve projected growth; (ii) projects costs of the capital improvements; (iii) allocates collected impact fees for construction of the capital improvements; and (iv) covers at least a 5-year period and is reviewed and updated at least every 5 years.

## **SERVICE AREA REPORT – WATER SYSTEM**

### **STEP 1 - Anticipate Growth**

The existing water system and its capacity to serve Three Forks' anticipated growth is described in the CIP, pages 15-22.

### **STEP 2 - Identify Improvements**

### **STEP 3 – Categorize Improvements**

The CIP lists specific improvements the water system needs. Some of those projects cannot be funded by impact fees because their main purpose is to correct existing deficiencies. Two projects are primarily necessitated by growth and could be partially funded by impact fees: a new water system master plan that is scheduled for completion in FY 2027 at an estimated cost of \$80,000, and a new transmission main that is scheduled for installation in FY 2026 at an estimated cost of \$1,375,000.

### **STEP 4 – Apply Cash on Hand, as Appropriate**

The city does not have cash on hand that can be used to reduce the cost of the proposed improvements before trial water system impact fees are calculated. The water system impact fees previously collected have been committed to current projects.

### **STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth**

The proposed water system improvements identified in Step 2 will benefit both existing and future water users. This means that impact fees cannot pay their entire cost, only the growth-serving share, which is determined using the buildout analysis.

### **STEP 6 – Split Costs between Residential and Commercial**

The next step in calculating trial water system impact fees is to use water meter records to determine the split between commercial (which for this purpose, includes all nonresidential uses) and residential water consumption. That split in the most recent year is 17%/83%, commercial/residential.

It is not possible to charge impact fees for commercial and residential development on the same basis. The sensible way to charge for homes is the way they're built, dwelling unit by dwelling unit. But commercial development doesn't break neatly into "units." Commercial buildings are of different sizes and used for different purposes, but their diversity can be reduced to square feet of building area.

To calculate trial water system impact fees, the costs of the improvements are split 17%/83%. The results of that calculation are then divided by the number of dwelling units (2006 total,

existing and anticipated) and the building area of commercial uses (390,000 SF total, existing and anticipated) established in the buildout analysis.

That math leads to a trial water system impact fee of \$612.36 for each new dwelling unit and \$0.645 for each square foot of new commercial space (a 1,000 SF commercial building would pay \$645.00). But accuracy requires another step. Different types of residential uses consume different quantities of water, and that is even more true for commercial uses.

## **STEP 7 – Split Costs among Types of Residential and Commercial**

Single-family homes tend to consume more water than multi-family dwellings. **Three Forks' currently acknowledges this by setting its water system impact fee at 80% as much for an apartment (except the first one, which pays the same as a single-family dwelling) as for a single-family dwelling.** Analyzing water meter records suggests, though, that the 80% discount is generous. Water consumption varies a lot among dwellings, but overall, multi-family dwellings are using 88% as much as single-family. To account for that difference while raising the revenue needed to support the improvements listed here, the trial water system impact fee is \$575.62 for multiple-family dwellings and \$624.61 for single family dwellings. Those figures split the fees that would not be collected if multi-family dwellings were simply charged 88% as much as single-family.

Making this split for commercial uses is not straightforward. The city currently addresses the varying consumption of water by commercial uses by adjusting its water system impact fee upward for projects that need a larger water meter. But since there's no reasonable way to project how many meters of what sizes will be installed in the future, that does not provide a sound basis for impact fees that are required to raise specific amounts of revenue for specific improvements.

The \$0.645 per square foot trial water system impact fee calculated here assumes that building size and water consumption are proportional. That is a reasonable assumption for small-scale commercial infill, but it cannot be extended to larger scale commercial development. If it were, a 20,000 square foot warehouse that has a lightly used employee restroom and needs a little water for janitorial purposes would pay \$12,900 in water system impact fees, while a busy restaurant that is only one-fifth the size of the warehouse, but uses more water, would pay only \$2,580.

Some communities try to resolve this problem with complicated water consumption tables for specific uses. That approach misses some of the potential variation in water use, but has two more fundamental flaws:

- it provides no way to anticipate the type and cumulative amount of development, a number that is needed to calculate fair impact fees, and
- it is limited to charging impact fees for improvements listed in the CIP. A truly large development might require facilities that were not anticipated in the CIP.

## **Addressing the Impacts of Large-Scale Commercial Development**

The calculation of fair and accurate impact fees depends on the city's ability to anticipate the demand development will place on its facilities. This is straightforward enough for residential projects and most small commercial uses in existing buildings or on vacant lots, but quickly becomes speculative when applied to larger projects.

When, for example, will a second (and almost certainly larger) grocery store be built? We don't know when another grocery store will appear, how large it will be, or the range of products and services it will offer, all of which are factors that affect its impact on Three Forks' streets and utilities. Nor do we know at what pace or scale other large-scale retail enterprises will come to town. It is even more difficult to predict what new industrial uses might be proposed.

Rather than guessing, it seems best to calculate impact fees based on the scale of commercial development that can reasonably be anticipated in the CIP and then to establish a case-by-case process to determine what contribution to the costs of new or improved facilities will be required of larger projects. That process can use the impact fees for commercial infill as a starting place, then adjust for the impacts of each proposed development.

This large-scale commercial development review process must be instituted in a way that applies to all three possible paths to an approved permit. The first two paths, annexation and the subdivision of property within the city, include the possibility of a detailed review of infrastructure impacts at the time of annexation or when an application to subdivide is filed. The third path, which would be the construction of a larger commercial project on an existing lot within the city, does not. That type of development would require only a zoning permit, the review of which is supposed to be straightforward. Three Forks' needs to define "infill commercial," which has been done in the service area reports, and create a review process for proposed commercial development that is larger than infill, but does not require annexation or subdivision. This process will be set up in the impact fee ordinance.

It is better to apply the trial water system impact fee calculated here to the small-scale commercial infill on which it is based (and which is defined as requiring a water meter of one inch or less in diameter and having a total building area of no more than 4,000 square feet) and adopt a case-by-case process for determining what contribution a larger project should make to water system (and other) improvements. For further explanation, please see the “Addressing the Impacts . . .” section on page 5.

### **STEP 8 – Allocate Costs by Benefit Area**

The water system improvements identified here serve the entire city. There is no need for benefit areas.

### **STEP 9 – Calculate Trial Impact Fees**

The trial water system impact fees are:

For single-family dwellings - \$624.61 per unit

For multiple-family dwellings - \$575.62 per unit

For infill commercial (nonresidential) projects - \$0.645 per square foot

The contribution of larger-scale commercial (nonresidential) projects to water system improvements will be determined in large-scale development review.

At buildout, these fees will have raised approximately 52% of the costs of the growth-serving water system improvements listed in the CIP. The exact yield will vary with the exact mix of housing types – single v. multi-family – which cannot be precisely anticipated. This yield calculation assumes that the mix at buildout will be 75%/25%, single-family/multi-family.

### **NEXT STEPS**

These trial water system impact fees cannot reflect the currently unknown costs of finding and developing additional water sources or of any additional improvements that may be recommended in the new water system master plan. Three Forks’ water system impact fees should be revised promptly after completion of that plan.

## SERVICE AREA REPORT – WASTEWATER SYSTEM

### STEP 1 - Anticipate Growth

The existing wastewater system and its capacity to serve Three Forks' anticipated growth is described in the CIP, pages 23-28.

### STEP 2 - Identify Improvements

### STEP 3 – Categorize Improvements

The CIP lists specific improvements the wastewater system needs. Some of those are necessary to maintain the existing level of service and cannot be funded by impact fees. The growth-serving projects that could be funded by impact fees are:

- Production of a Preliminary Engineering Report (PER) for the wastewater system is scheduled to begin in FY 2025 at an estimated cost of \$80,000. This planning effort will benefit both existing and new wastewater system users.
- The anticipated growth will necessitate enlargement of a trunk main in the center of the city. This project is scheduled for completion in FY 2029 at an estimated cost of \$3,100,000.
- The lift station that moves wastewater into the treatment plant needs upgrades with or without growth, but the extent of the improvements – which are scheduled for FY 2028 at an estimated cost of \$2,300,000 - is determined by the anticipated growth.
- The wastewater treatment plant (WWTP) has limited excess capacity - enough to serve 130 homes - but must be expanded to serve most of the anticipated growth. The cost of the WWTP expansion is estimated at \$4,700,000.
- **The costs of wastewater system improvements given here reflect a correction of the CIP. Adoption of this service area report should be understood to amend the CIP.**

### STEP 4 – Apply Cash on Hand, as Appropriate

### STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth

- A \$55,000 grant has been secured for the PER. \$25,000 of previously collected wastewater impact fees could also be used, fully funding this project without wastewater system impact fees.
- The proposed trunk main enlargement will serve the entire city except for the Southeast Residential Area (where the developer will install a separate sewage



collection system), including infill residential and commercial, and new dwellings in the Northwest Residential Area. It will also improve service for existing users. \$500,000 dollars of cash on hand (which has been generated by wastewater user fees) can be applied to reduce the costs of this project before calculating trial wastewater system impact fees.

- The proposed lift station upgrades will serve the entire city except for the Southeast Residential Area (where the developer will install a new lift station), including infill residential and commercial, and new dwellings in the Northwest Residential Area. It will also improve service for existing users. \$500,000 dollars of cash on hand (which has been generated by wastewater user fees) can be applied to reduce the costs of this project before calculating trial wastewater system impact fees.
- The proposed lift station upgrades are also eligible for state grants and loans that could further reduce what might be paid by impact fees. The city's engineers estimate that grants and loan forgiveness could total \$1,475,000. There is, however, some uncertainty about Three Forks' ability to secure these funds without a potentially unpopular and arguably unnecessary increase in user fees. We think it is prudent to discount them by 50% in the calculations made here.
- The entire cost of the WWTP expansion, minus an adjustment for the excess capacity, could be funded by impact fees. Since 130 dwellings represent 11.9% of anticipated residential buildout, project costs are reduced by that much to result in the correct calculation of the trial impact fees. The \$455,000 balance of previously collected wastewater impact fees (\$25,000 is directed to the Wastewater PER) could then be applied to reduce costs before trial wastewater impact fees are calculated.
- The proposed WWTP expansion is also eligible for state grants and loans that could further reduce what must be paid by impact fees. The city's engineers estimate that grants and loan forgiveness could total \$1,475,000. There is, however, some uncertainty about Three Forks' ability to secure these funds without a potentially unpopular and arguably unnecessary increase in user fees. We think it is prudent to discount them by 50% in the calculations made here.

#### **STEP 5 – Split Costs between Residential and Commercial**

#### **STEP 6 – Split Costs among Types of Residential and Commercial**

Wastewater flows from individual uses are not metered. It is assumed that wastewater generation is directly proportional to water consumption so costs are split in the same way as for the water system.

#### **STEP 7 – Allocate Costs by Benefit Area**

Because different wastewater system improvements will serve different parts of the city, there are two wastewater benefit areas: 1) the Southeast Residential Area and 2) the remainder of Three Forks.

**STEP 8 – Calculate Trial Impact Fees**

The trial wastewater system impact fees proposed here are:

**Southeast Residential Benefit Area, per dwelling unit**

Single Family – \$2,280.42

Multi-Family - \$2,101.56

**Remainder of Three Forks Benefit Area, per dwelling unit**

Single Family – \$5,034.12

Multi-Family - \$4,639.29

**Infill Commercial - \$2.882 per square foot**

Charging these trial wastewater system impact fees would result in new development paying approximately 34% of the costs of wastewater system improvements at buildout.

**NEXT STEPS**

We can't know now what the updated wastewater system master plan will call for. We can only say that the wastewater system impact fees proposed here may require revision after that plan is completed.

## SERVICE AREA REPORT – STORM WATER MANAGEMENT

### **STEP 1 - Anticipate Growth**

### **STEP 2 - Identify Improvements**

### **STEP 3 – Categorize Improvements**

The CIP (see pages 29-30) calls for preparation of a plan for a new, comprehensive approach to storm water management (SWM) in Three Forks. That planning effort is scheduled for FY 2026, will cost \$90,000, and will benefit all development, existing and anticipated.

### **STEP 4 – Apply Cash on Hand, as Appropriate**

A trial impact fee for SWM has been calculated to help everyone understand the overall costs of growth, but the city has cash on hand for flood control that can be used to pay for the proposed SWM plan.

### **STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth**

Since there is no existing SWM system, the only work that could be funded by impact fees is an SWM plan. And since that plan would cover the whole community, the split between correcting deficiencies and serving growth is calculated as the split between existing and future development at buildout.

### **STEP 6 – Split Costs between Residential and Commercial**

Determining the split of SWM costs between residential and commercial uses is not that easy. The best basis for allocating SWM impact fees is impervious cover; the extent of impermeable surfaces, like roofs and paving, that generates surface runoff that should be managed to avoid damage to infrastructure and property. We considered using a national land cover database to measure existing impervious cover in Three Forks, but the costs of processing and ground truthing that data would exceed the resources available for the calculation of all impact fees.

Given that no physical improvements are proposed, just preparation of a plan, we believe that an equitable temporary basis for a trial SWM impact fee is the difference in building coverage permitted by the city's zoning. Residential uses are generally allowed 35% building coverage. Commercial uses may cover their entire lot, so the trial SWM fees are split 65%/35%. The SWM plan should provide the information needed to base future SWM impact fees on impervious cover.

### **STEP 7 – Split Costs among Types of Residential and Commercial**

### **STEP 8 – Allocate Costs by Benefit Area**

There is no need to split SWM costs among different types of uses or establish benefit areas. The SWM plan will address differences among land uses and recommend benefit areas, as needed.

### **STEP 9 – Calculate Trial Impact Fees**

While this report recommends a different way of funding the proposed SWM plan, the trial SWM impact fees are \$15.70 per dwelling unit and \$0.150 per square foot of commercial building (a 1,000 square foot building would pay \$150). Collecting these fees would generate just over half the cost of the SWM plan at buildout, leaving a 49% share for existing uses to be covered by other funding sources.

### **NEXT STEPS**

We do not know what the proposed SWM plan will recommend. It could assign most costs directly to developers, minimizing or even eliminating the need for SWM impact fees. Or it could call for the construction of a municipal SWM system that is partially funded by impact fees. All we can say for sure is that it will be necessary to create a new service area report following completion of the SWM plan.

## SERVICE AREA REPORT – TRANSPORTATION

### **STEP 1 - Anticipate Growth**

### **STEP 2 - Identify Improvements**

### **STEP 3 – Categorize Improvements**

The CIP (see pages 31-39) calls for preparation of a Long-Range Transportation Plan (LRTP) and a Bicycle/Pedestrian Master Plan to identify the transportation issues and needs created by Three Fork's anticipated growth. It also describes two specific growth-serving street projects that it seems clear will be needed.

### **STEP 4 – Apply Cash on Hand, as Appropriate**

Three Forks has cash on hand that can be used for transportation planning and street improvements. This report suggests using it to complete the LRTP and Bike/Pedestrian Plan because these guiding documents should be available as soon as possible. The remaining amount - \$280,000 – can be applied to the Dakota Street improvements described in the CIP, slightly reducing the trial transportation impact fees.

### **STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth**

The LRTP – which is scheduled for FY 2025 at an estimated cost of \$80,000 - and the Bicycle/Pedestrian plan – which is scheduled for FY 2028 at an estimated cost of \$30,000 - will benefit the entire city. They could be partially funded by impact fees, but this report suggests funding them with cash-on-hand.

The first improvement listed in the CIP is growth-serving, providing a safer, more serviceable connection from the impending development of the Southeast Residential Area to the rest of Three Forks. Benefits to existing residential uses would be minimal (affected homeowners may consider the construction and added traffic to be nuisances). Existing businesses that gain customers from the new neighborhood would benefit. 100% of this project could be funded by impact fees. It is estimated to cost \$7,595,000 and expected to begin sometime after FY 2029.

The second project will rebuild Dakota Street and that complicated intersection where Dakota, Railway, Second Avenue West, and West Elm converge on the edge of downtown. This will facilitate traffic flows and safety as the Northwest Residential Area develops and commercial uses fill in. It is scheduled for after FY 2029 and is estimated to cost \$7,511,000. This improvement of a major intersection will benefit the entire city.

## **STEP 6 – Split Costs between Residential and Commercial**

Calculation of transportation impact fees raises interesting questions. If a trip is from a home to a business should that trip be attributed (and an impact fee charged) to the residential use or the commercial? or both? Then there is the reality that different businesses generate different demands; a restaurant usually draws more traffic than a quilt shop. And what about trips to multiple destinations? One might go downtown to pick up a prescription, have lunch, and stop at the library. Then there are trips that leave Three Forks or originate elsewhere; a resident commuting to Bozeman, a contractor coming from Belgrade. The LRTP will deal with this complexity.

Our goal for now is to propose trial transportation impact fees that would allow the city to begin collecting funds for street improvements for which the need seems clear. This requires making some simplifying assumptions, starting with the assumption that the 25%/75% commercial/residential split of overall city business explained in the service area report for municipal buildings is a fair proxy for the split in traffic generation. The other assumptions are explained in Step 7.

## **STEP 7 – Split Costs among Types of Residential and Commercial**

Single-family dwellings tend to generate more trips than multi-family. We have no local data for Three Forks, but widely used national sources suggest that multi-family units generate 80-90% as much traffic as single family. We use the data-based 88% difference in water consumption as a proxy.

We also assume that the traffic generation of infill commercial uses is similar enough to apply the same per square foot transportation impact fee until the LRTP is completed. The contributions larger-scale uses must make to the city's transportation needs will be determined in the large-scale development review process.

## **STEP 8 – Allocate Costs by Benefit Area**

Two benefit areas are required to calculate trial transportation impact fees for Three Forks. The first is the entire city, which benefits from transportation planning efforts and the major intersection reconstruction project. The second is the SE Residential Area, which will benefit from connecting street improvements.

## **STEP 9 – Calculate Trial Impact Fees**

The resulting trial impact fees for transportation are:

SE Residential, single-family, per unit – \$7,917.60

SE Residential, multi-family, per unit – \$7,296.61

Remainder of City, single-family, per unit – \$2,757.58

Remainder of City, multi-family, per unit – \$2,541.30

Infill Commercial, per square foot - \$16.502

Charging these trial transportation impact fees would yield approximately 82% of the listed transportation improvements at buildout, leaving 18% to be covered by other funding sources. The exact yield will vary a bit depending on the exact mix of single-family versus multi-family dwellings built.

#### **NEXT STEPS**

This service area report and transportation impact fees must be revisited after completion of the LRTP.

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## SERVICE AREA REPORT – MUNICIPAL BUILDINGS

### **STEP 1 - Anticipate Growth**

### **STEP 2 - Identify Improvements**

### **STEP 3 – Categorize Improvements**

### **STEP 4 – Apply Cash on Hand, as Appropriate**

### **STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth**

The CIP describes Three Fork' existing municipal buildings and some improvements that correct existing deficiencies on pages 40-41. It also calls for an architectural study of a new facility that would house the city offices, meeting rooms, and the fire department, as well as providing space for the Gallatin County Sheriff's Department, for which the city now leases an office. This facility would serve the entire population, including anticipated growth. It could be partially funded by impact fees. The architectural study is scheduled for FY 2025 at an estimated cost of \$65,000. There is no cash on hand that can be applied to this facility.

### **STEP 6 – Split Costs between Residential and Commercial**

City staff estimates that 70-75% of the business conducted in their offices serves residents, while 25-30% serves the business community. Applying a 72.5%/27.5% split to the estimated cost of the architectural study results in trial impact fees of \$23.49 per dwelling unit and \$0.046 per square foot of commercial building area (a 1,000 square foot building would pay \$46).

### **STEP 7 – Split Costs among Types of Residential and Commercial**

### **STEP 8 – Allocate Costs by Benefit Area**

A new municipal building would provide roughly the same level of service to the entire community. There is no need to split costs among users or create benefit areas. It may eventually be necessary to determine what share of building costs should be borne by the rural fire protection district.

### **STEP 9 – Calculate Trial Impact Fees**

The trial municipal buildings impact fees are \$23.49 per dwelling unit and \$.046 per square foot of infill commercial building area. Collecting these fees would eventually cover just over half the cost of the architectural study, leaving a 49% share for existing uses that must be covered by other funding sources.

## **NEXT STEPS**

Completion of the architectural study should trigger discussion of the need for a new municipal building. That could then lead to a new service area report and calculation of trial impact fees to help fund the project.



## **SERVICE AREA REPORT – FIRE PROTECTION**

### **STEP 1 - Anticipate Growth**

### **STEP 2 - Identify Improvements**

The CIP (see pages 42-43) describes Three Forks' Volunteer Fire Department, which also serves a large rural area through a special district. The department's future building space needs are addressed in the Service Area Report – Municipal Buildings.

### **STEP 3 – Categorize Improvements**

### **STEP 4 – Apply Cash on Hand, as Appropriate**

### **STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth**

The other need that could be partially funded by impact fees is for a new engine that is scheduled to be acquired in FY 2029 at an estimated cost of \$750,000. That cost must be reduced by the current and projected (through FY 2029) balance in a voter-approved levy for the costs of an engine before calculating the trial impact fee. The city has also been collecting fire protection impact fees that must be applied to this purchase.

### **STEP 6 – Split Costs between Residential and Commercial**

The residential/commercial split for fire apparatus is based on the relative values of the properties protected, which can be taken from the property tax rolls. In Three Forks that split is 76%/24% (note the interesting similarity to the staff estimate of the overall split of city business). The resulting trial impact fees are \$118.00 per dwelling unit and \$0.192 per square foot of commercial building area (a 1,000 square foot building would pay \$192.00).

### **STEP 7 – Split Costs among Types of Residential and Commercial**

### **STEP 8 – Allocate Costs by Benefit Area**

The fire department provides the same level of service to the entire community. There is no need to split costs among users or create benefit areas within the city. The relationship of the city and the rural fire protection district was established by an interlocal agreement that is reviewed and discussed annually.

### **STEP 9 – Calculate Trial Impact Fees**

The trial fire protection impact fees are \$87.69 per dwelling unit and \$0.142 per square foot of commercial building area. Collecting these fees would cover 16% of the cost of the new engine, leaving the remainder to be covered by dedicated property tax revenues and previously collected impact fees. It is worth noting that it will take approximately nine more years for the tax levy to accumulate enough to purchase the fire engine (presuming that the cost of the engine does not increase), long past FY 2029 when replacement is due.

## **NEXT STEPS**

The next step in facilities planning for fire protection will be the discussion that follows completion of the architectural study called for in the Service Area Report – Municipal Buildings.

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## TOTAL IMPACT FEES

Table 1 summarizes the trial impact fees calculated in the draft service area reports and shows the total. Please be reminded that these trial impact fees are the maximum defensible; are subject to revision as the city does more detailed infrastructure planning and engineering; do not apply to large-scale commercial projects, the contributions of which to the city's infrastructure will be determined in a case-by-case review; and may be appealed, allowing the Mayor and Council to consider exceptions for atypical projects on a case-by-case basis..

The trial impact fees should not be shocking. This is what it costs to build infrastructure everywhere. In fact, because Three Forks has managed well and has cash on hand that can be applied to some of the proposed improvements, these fees are relatively modest.

**Table 1 – Summary and Total of Trial Impact Fees**

<b>Water</b>		<b>Municipal Buildings</b>	
multi-family, per unit	\$ 575.62	all residential, per unit	\$ 23.49
single-family, per unit	\$ 624.61	infill commercial, per SF	\$ 0.046
infill commercial, per SF	\$ 0.645		
<b>Wastewater</b>		<b>Fire Protection</b>	
<b>SE Residential</b>		all residential, per unit	\$87.69
multi-family, per unit	\$ 2,101.56	infill commercial, per SF	\$ 0.142
single-family, per unit	\$ 2,280.42		
<b>Remainder of Three Forks</b>		<b>TOTAL IMPACT FEES</b>	
multi-family, per unit	\$ 4,639.29	<b>SE Residential</b>	
single-family, per unit	\$ 5,034.12	multi-family, per unit	\$ 10,084.97
infill commercial, per SF	\$ 2.882	single-family, per unit	\$ 10,933.80
<b>Stormwater</b>		<b>Remainder of Three Forks</b>	
all residential, per unit	\$ -	multi-family, per unit	\$ 7,867.39
infill commercial, per SF	\$ -	single-family, per unit	\$ 8,527.49
<b>Transportation</b>		infill commercial, per SF	\$ 20.218
<b>SE Residential</b>			
multi-family, per unit	\$ 7,296.61		
single-family, per unit	\$ 7,917.60		
<b>Remainder of Three Forks</b>			
multi-family, per unit	\$ 2,541.30		
single-family, per unit	\$ 2,757.58		
infill commercial, per SF	\$ 16.502		

## Impact Fee Advisory Committee Recommendation

In evaluating the trial impact fees shown in Table 1, the IFAC noted that the total trial impact fees for the SE Residential Benefit Area are substantially higher than those for the remainder of the city. This is due entirely to the cost of the transportation improvements needed to link development there with the rest of the city. The IFAC is also concerned that the trial impact fees for infill commercial may be high enough to discourage investment in small businesses in Three Forks' existing commercial areas. Based on these observations, the IFAC recommends reducing the trial transportation impact fees in two ways.

First, to help moderate the cost of new dwellings in the SE Residential Benefit Area the transportation impact fees for that area should be the same as in the rest of the city, at least until the proposed transportation improvements are re-evaluated in a Long Range Transportation Plan.

Second, the transportation impact fee should also be reduced for infill commercial development (projects of 4,000 SF building area or less that do not require a water meter larger than one inch in diameter). This will help implement the city's growth policy by encouraging enterprises that might renovate existing commercial structures for a new use or construct new buildings on vacant land in the center of the city. If the trial transportation impact fee for infill commercial is reduced by the same percentage as is recommended for dwellings in the SE Residential Benefit Area, it falls to 35% of the amount shown in Table 1.

These recommended reductions lead to Table 2, which appears on the next page. That schedule of impact fees seems reasonable to the IFAC, which recommends its adoption as the city's new schedule of impact fees, while acknowledging that there is still an open question about the fees' effect on small businesses. The IFAC will be happy to discuss this question with the Mayor and Council before the final impact fee schedule is adopted.

The IFAC also recommends:

- that the large-scale development review process proposed in the service area reports be amended into the city's land use regulations as soon as reasonably possible, and
- that the calculation of building area on which commercial impact fees will be based omit space that is used primarily for storage.

The IFAC understand that these recommendations will be incorporated into the impact fee ordinance and the current rewrite of the city's land use regulations.

**Table 2 - Recommended Impact Fee Schedule**

<b>Water</b>			<b>Municipal Buildings</b>	
multi-family, per unit	\$	575.62	all residential, per unit	\$ 23.49
single-family, per unit	\$	624.61	infill commercial, per SF	\$ 0.046
infill commercial, per SF	\$	0.645		
<b>Wastewater</b>			<b>Fire Protection</b>	
<b>SE Residential</b>			all residential, per unit	\$ 87.69
multi-family, per unit	\$	2,101.56	infill commercial, per SF	\$ 0.142
single-family, per unit	\$	2,280.42		
<b>Remainder of Three Forks</b>			<b>TOTAL IMPACT FEES</b>	
multi-family, per unit	\$	4,639.29	<b>SE Residential</b>	
single-family, per unit	\$	5,034.12	<b>multi-family, per unit</b>	\$ <b>5,329.66</b>
infill commercial, per SF	\$	2.882	<b>single-family, per unit</b>	\$ <b>5,773.79</b>
<b>Stormwater</b>			<b>Remainder of Three Forks</b>	
all residential, per unit	no fee at this time		<b>multi-family, per unit</b>	\$ <b>7,867.39</b>
infill commercial, per SF	no fee at this time		<b>single-family, per unit</b>	\$ <b>8,527.49</b>
			<b>infill commercial, per SF</b>	\$ <b>9.491</b>
<b>Transportation</b>			<b>Transportation Impact Fee Adjustments</b>	
<b>SE Residential</b>			multi-family, per unit	\$ 2,541.30
multi-family, per unit	\$	7,296.61	single-family, per unit	\$ 2,757.58
single-family, per unit	\$	7,917.60		
<b>Remainder of Three Forks</b>			infill commercial, per SF	\$ 5.78
multi-family, per unit	\$	2,541.30		
single-family, per unit	\$	2,757.58		
infill commercial, per SF	\$	16.502		

These adjustments are explained on page 18 of this document.

## APPENDIX - CALCULATING IMPACT FEES STEP-BY-STEP

Reading the service area reports should make it clear that they are works-in-progress. The engineering studies they call for will result in changes to the list and costs of improvements needed. Those changes will, in turn, necessitate the update of the trial impact fees proposed in the service area reports. Here is the step-by-step process for updating impact fees. A worksheet has been designed to help city staff implement these steps

**STEP 1 – Anticipate Growth.** The CIP and service area reports are grounded in an analysis that “builds out” Three Forks’ land base as a basis for deciding what facilities improvements are needed to serve the city’s growth. It may be necessary to revise the buildout analysis as growth occurs. That should be done with professional assistance. While buildout remains the same, however, impact fees can be revised or added following these steps.

**STEP 2 – Identify Improvements.** The August 2024 CIP lists the improvements needed to maintain and expand city facilities based on the current understanding of facilities capacity and anticipated growth. Additional improvements that are identified in the engineering studies and plans proposed in the CIP must be amended into the CIP before impact fees are updated.

**STEP 3 – Categorize Improvements.** This step answers the basic question: Can an impact fee pay for all or part of an improvement that is in or being added to the CIP? Proposed improvements ordinarily fall into one of three categories: 1) those that primarily correct deficiencies in serving the existing population and cannot be funded by impact fees; 2) those that are necessary only due to anticipated growth and may be funded up to 100% by impact fees; and 3) those that both correct deficiencies and serve growth, which may be partially funded by impact fees. There may also be projects like the RV dump station listed in the current CIP that do not fit into these categories and cannot be funded by impact fees.

**STEP 4 – Apply Cash on Hand, as Appropriate.** Sound fiscal management has given Three Forks cash on hand that may be applied to some of the improvements proposed in the CIP. The current balances of impact fees previously collected for the wastewater system and fire protection should be used (the impact fees previously collected for the water system are committed to current projects), as should any grant funds that have already been committed to a project listed in the CIP. Other reserves may be used if the city determines that doing so leaves sufficient cash on hand.

**STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth.** This step, which flows from Step 3, will be based on the project descriptions in the CIP and the buildout analysis. It is an easy step for improvements that may be funded 100% by impact fees. For almost all projects in the current CIP, however, the findings of the buildout analysis must be used to split costs between correcting deficiencies and serving growth.

**STEP 6 – Split Costs between Residential and Commercial.** The buildout analysis provides a basis for calculating both the total and per unit costs that may be funded by impact fees. Before charging impact fees, however, costs must be allocated between (and possibly even among, see Step 7) uses and converted to unit costs. The most practical units are dwelling units and square feet of building area. But what part of the demand for a particular facility is generated by the city’s homes and what part by its businesses, industries, and institutions? The answer is not the same for every facility. Each service area report uses an appropriate split.

**STEP 7 – Split Costs among Types of Residential and Commercial.** Determining the split between residential and commercial uses is not always sufficient. Different businesses and different types of dwelling units place different demands on some municipal facilities. Again, each service area report explains the necessary splits.

**STEP 8 – Allocate Costs by Benefit Area.** The results of Steps 5-7 are complicated by the fact that not all improvements serve the entire city. An example from the current CIP is the need for improvements to the existing wastewater lift station. Those improvements will not serve the Southeast Residential Area, where the developer will install a separate lift station. The number of dwelling units that will be served by that new lift station must be deducted from the total anticipated growth before trial impact wastewater fees are calculated. It may be necessary to identify benefit areas that are not used in these service area reports in future amendments to the CIP.

**STEP 9 – Calculate Trial Impact Fees.**

Finally! Once improvements have been identified and categorized; costs have been split in the necessary ways; and benefit areas have been identified and accounted for, trial impact fees pop out of the worksheet.