



Highlights

Why We Did This Audit

In February 2017 the City Plan Commission warned the mayor and City Council that the current arterial street impact fee ordinance was not keeping pace with development in the city.

The audit focused on whether the city would benefit from increasing the arterial street impact fees in accordance with Chapter 39 of the Code of Ordinances.

Background

Arterial street impact fees are payments required of new development to help pay for the additional arterial street capacity needed to accommodate development. Chapter 39 of the city's Code of Ordinances imposes an arterial street impact fee on new development in eight benefit districts so each project could pay its share of arterial street improvements needed to serve the new development at the existing level of service.

Eligible improvements include the construction of new arterial streets, adding lanes to existing arterial streets, signalization, and intersection and other improvements to increase arterial system capacity.

Arterial street impact fee rates have not changed since the arterial street impact fee ordinance became effective in 2002 although the ordinance provides a method for increasing fees.

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PERFORMANCE AUDIT

Arterial Street Impact Fee Ordinance Should Be Amended to Correct Structural Imbalance

What We Found

Provisions in the arterial street impact fee ordinance result in fees that are not sufficient to fund needed arterial street improvements, creating a structurally imbalanced program. The ordinance establishing the arterial street impact fees discounted the impact fee to 50 percent of the fee structure developed by city-hired consultants, resulting in a funding gap.

Construction credits granted under the ordinance also contribute to the structural imbalance. Construction credits were granted to developers for contributions, payments, bonds submitted securing completion of improvements, or construction accepted and received up to 25 years before the effective date (2002) of the ordinance. Between 2008 and 2017 about 53 percent of impact fees were paid with credits, not money. Credits do not provide funds that can be used to pay for needed arterial street improvements.

Impact Fee Payments, Fiscal Years 2008-2017

Type of Payment	Total	Percent
Cash	\$6,814,575	46.7%
Construction Credits	\$7,792,046	53.3%

The credit calculation method in the ordinance and inflation further exacerbate the program's structural imbalance. Per ordinance, construction credits are currently calculated as 100 percent of the developer's contribution, payment, or estimated cost of construction of the arterial street improvement less the 50 percent fee, which results in an increasing number of credits.

Because construction costs have increased by 58 percent while impact fees have remained unchanged, additional construction credits have been granted. We estimate impact fees only cover about 32 percent of a developer's share of improvements associated with the new development.

The impact fee schedule has not been adjusted, in part because the ordinance requires that construction credits be adjusted to current value when the impact fee schedule is revised. As of September 2017, developers held more than \$13 million in arterial street impact fee construction credits. Adjusting the fee would increase these credits to about \$21 million.

Raising fees alone will not eliminate the structural imbalance created by provisions in the arterial street impact fee ordinance. The current impact fee ordinance needs to be modified. Fees need to be increased in conjunction with or after other ordinance modifications are in place.

What We Recommend

We make recommendations to modify Chapter 39 of the Code of Ordinances to make the arterial street impact fee program sustainable.

The mayor and management agreed with the recommendations.