MEMORANDUM

To: Brett Limbaugh and Patsy Horton, Rapid City Community Planning and Development Services Department

From: Andrew Knudtsen and Matt Prosser, Economic & Planning Systems

Subject: Cost of Growth Analysis and Public Financing Toolbox

Date: September 20, 2013

The Economics of Land Use

This memorandum provides an overview of how the City has used public financing tools, summarizes tools used in surrounding western states, and provides a set of potential actions the City could take to expand its set of public finance tools and new approaches to infrastructure financing. The document is intended to serve as an educational tool for City staff and elected officials. Initial outreach efforts to city staff, elected officials and stakeholders during the comprehensive plan has indicated that there is a desire for the City to explore alternative uses to tax increment financing and alternative tools and approaches for infrastructure finance. The purpose of this memo is to provide a baseline understanding of the options that exist and alternative approaches that can be explored. The changes the City could make to their current approach to infrastructure finance in this memo are a series of suggestions that should be considered during the policy formation and implementation strategy formation of the comprehensive plan process. The idea is to provide a set of potential changes to allow for the vetting of ideas in the comprehensive plan process in order to create implementation actions that are generally supported by the City staff, elected officials, and stakeholders.

Public Improvement Financing in Rapid City

Rapid City funds infrastructure capital projects through a variety of fund sources, with funds provided mainly through property and sales tax revenues. Three main infrastructure related funds are provided using sales tax revenues. They are the Vision Fund, Consolidated Construction Fund, and Utility Facilities Fund. Each fund is described below.

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- The Vision Fund is geared to economic development that provides funds based on a five year plan for infrastructure, economic development or civic center improvements.
- The Capital Improvement Fund is the City's main capital improvement program (CIP). The program is a five year plan that is somewhat fluid to allow for project timing to be revised based on pressing needs. CIP funds can be used on streets, parks, civic buildings, and IT needs.
- The Utility Support Fund was created to support the City's utility enterprise funds, such as water and sewer, by providing capital dollars for expansion of these services. The Utility Support Fund has been expanded to include streets. The City has five separate enterprise funds which include water, sewer, solid waste, the airport, and the Civic Center, which are funded through service fees primarily, with the exception of the Civic Center.

The largest revenue sources for the City are property tax and sales/use tax. Property tax rate for the City has been at or around $3 per $1,000 of assessed value for the past 10 years. The total amount of property tax revenue generated by the City is controlled by previous year's revenue and changes in assessed valuation; therefore the rate can change from year to year. The property tax rate has been stable over the past decade. The annual incremental increase available to the City is restricted to the existing tax base plus new growth in property (i.e. new property through annexation, subdivision, changes in uses, etc.) plus either an increase of 3 percent of the base or an increase tied to the consumer price index (CPI). The City Council has elected not to take the allowed three percent/CPI increase in recent years.

The City sales tax rate is 2 percent for general retail purchases or 3 percent total (with an additional 1 percent) hotel rooms, prepared foods, and alcohol purchases. The sales tax rate for the City is controlled by the State and cannot be increased without new legislation. The ability of the City to raise more revenue is limited and therefore incentivizes the City to expand its tax base.

The revenues streams provided to the City to pay for capital improvements have not been sufficient enough to cover needed improvements. The decisions made on improvements are balanced between existing infrastructure and new infrastructure. The need to fund infrastructure to facilitate growth and the general lack of revenue for improvements to existing infrastructure, has caused the City to have unfunded improvements. As described above, it is beneficial from a fiscal standpoint for the City to encourage new growth. New development on the edges of the City has been predominately dependent on infrastructure improvements made by the City to facilitate this growth. The City is unable to pay for all improvements necessary and has not forced development to occur only where improvements exist or are planned, which has led to the use of other methods of generating funds for infrastructure improvements. Many cities in the country are unable to use existing city-wide revenue to pay for all new infrastructure and therefore have turned to other methods and tools. The City has a relatively limited number of financial tools available to pay for new infrastructure compared to other cities in the western US. This is largely due to State statutes, but there are other barriers which will be described later in this memo. Improvements needed to facilitate new development that are not paid for by the City, in turn need to be paid for by developers to allow for new growth. In order to encourage and facilitate development in certain areas, the City has used tax increment financing (TIF) as a tool to allow itself and developers to pay for new infrastructure. TIF is one of the few public financing tools available to the City currently.

The City has used TIF to finance a variety of projects and improvements. The majority of the recent Tax Increment Districts (TID's) approved have been to finance infrastructure improvements to allow for greenfield development, including improvements that are sub-regional and serve primarily new uses in that area. Developers most commonly request TIF districts to pay for public infrastructure to service their new developments. TIDs are setup to provide a revenue stream for the developer to pay for infrastructure improvements. The developer uses the pledge of TIF funds to obtain construction loans from banks and repay debt using annual TIF payments. TIF payments are made until the debt is retired, at which time the TID dissolves. The City will also not issue debt using TIF as repayment source for any project the City is completing. For projects the City builds, the upfront funds come from other City revenue sources which are paid back through the proceeds from a TID. This practice greatly reduces risk of default on debt for the City and places the risk onto the developer to generate enough incremental taxes to service debt.

The criteria for establishing a TID in South Dakota are stipulated by State Statute. Generally provisions for the use of TIF are restricted to economic development or removing blight. However, these general purposes allow for broad interpretations and therefore most projects meet the state standards. The eligible public costs that could be paid for with TIF have been numerous and not specifically tied to specific, physical improvements. Recent legislative changes have further defined and limited eligible costs. Another legislative change forced interest rates on debt to be repaid with TIF to be market rate instead of a higher than market rate which was standard practice in the past.

The City has a clear set of criteria for using TIF, which includes encouraging redevelopment of blighted property through the investment of public funds, to stimulate economic development by assisting projects that promote the long term economic vitality, to stimulate increased private investment in areas that would have otherwise remained undeveloped or under-developed, to stimulate the construction of affordable housing for low and moderate income residents, and to facilitate the reconstruction, maintenance and completion of the City's existing infrastructure network to support the existing growth and guide the future growth. Applications for a TID require the applicant to meet provisions for project purposes, criteria for use, and eligible costs, much of which are based on the State statute allowing the use of TIF and City standards. The City has a TIF District Project Review Committee, which consists of members of the City Council, Planning Commission, Pennington County, the School District and economic development staff. This committee reviews projects and make recommendations to the Planning Commission and City Council. City Council has final approval of the districts.

Rapid City has created 73 Tax Increment Districts since 1983, with the most recent TID approved in May of 2012. Twelve of the TIDS were approved but never formally adopted and 24 of the districts are still active. TIDs have a maximum length of 20 years and most expire before 20 years. The City currently generates approximately $13.5 million in property tax annually, of which approximately 8 percent or $1.1 million is being used by TIDs.

Rapid City also uses and has tried to use a variety of other tools or mechanisms to fund new infrastructure. The City's water and sewer enterprise funds charge connection fees to connect to city water and sewer, but these fees are relatively small. The City has allowed some developers to provide connections for a new development area and be repaid by subsequent developers in the area with their connections fees once they develop. This practice is generally not encouraged and creates complications for the City and developers. The City enacted a water impact fee in 2002, via a special election, which was repealed in 2003.

The current approach to the use of TIF in Rapid City has both positives and negatives. Some of the positives to the use of TIF are:

- Facilitates new development within the City
- Generates increased tax revenue once the TID expires and increases the value of the City
- Allows for investment in City with no increase in taxes
- TIF is one of limited set of tools available to the City

Some of the negatives to the current use of TIF in Rapid City include:

- A disproportionate burden on all residents and business owners for improvements that often benefit only a narrow section of the community
- Widespread use of TIF in the City with approval based on a diluted interpretation of criteria

The lack of revenue tools hampers the City's ability to provide public facilities for new and existing residents and has led to the routine use of TIF. The use of TIF has become more politically sensitive in recent years, as well. The City needs to identify new approaches and methods for providing public infrastructure and amenities.

Public Financing in Western United States

A detailed set of public financing tools used in South Dakota and other western states is provided below, including tools from California, Colorado, Nevada, New Mexico, Oklahoma and Wyoming. The identified tools used in these states include a description of each tool and examples of their most common uses. Many of the tools described may not be allowed in South Dakota but the mechanism may be able to be modified to meet State statutes or could be cited as reason to make needed legislative changes the City can encourage. The tools have been organized by type and geographic orientation.

Project and Area Specific Options

A variety of funding mechanisms are available to fund specific infrastructure or public facilities projects that can be geographically defined as the site-, neighborhood-, or city-level.

Area of Development Impact Fees (ADIF) - California

Area of Development Impact Fees (ADIF) are created to pay for improvements necessary to provide services to new development. Impact Fees are a one-time fee charged most typically at time of building permit approval. Impact Fees may be enacted by a legislative body (i.e., city or county) through adoption of an ordinance. The local agency must make findings every 5 years regarding how the funds have been expended and/or will be committed. ADIFs are flexible and may be used for a wide range of capital facilities. ADIFs are generally understood and accepted by the development community. Fees must meet State standards that require that fees be levied in an amount proportionate to the need for the public facilities created by the new development. Typically Impact Fees are assessed on a municipal wide basis but can be tailored to subareas of cities or counties that can justify fees for specific facilities.

Special Districts

Special districts are typically autonomous units of local government having an array of powers with the ability to determine their own objectives, finance improvements, perform services, and

control their own budgets. Special districts are designed to address multiple projects and/or to provide services over a period of time.

Special Assessment Districts – California

Special Assessment Districts are set up to levy a tax by cities/counties in specific areas to finance development and operations and maintenance of public improvements for that area. An additional tax is levied against real property, existing or new development, on the basis of benefit. A district is proposed by a city/county and put to a majority vote of impact property owners weighted in proportion to the assessment liability. The entity enacting the district may issue bonds secured by assessments. Districts that are created to pay operations and maintenance costs can be rescinded by vote. The most common uses are to fund infrastructure improvements to service a new development area, or to fix/improve aging infrastructure in an existing area. The improvements made are typically sub-regional and serve just the area that is in the district.

Special Taxes/Mello-Roos District - California

Mello-Roos Community Facilities Act (1982) created the ability to create a Community Facilities District (CFD), which is authorized to levy a special tax to finance certain public facilities and services. The CFD can be city or countywide or for a specific area. A two-thirds vote of the registered voters living in the proposed district at time of election is required to set up the district. Funds from a CFD may be used to finance new public facilities and services as well as expand existing facilities and services. CFD taxes can be apportioned without showing benefit to individual parcels and without showing a nexus between the source of the tax and its use. A two-thirds vote is often difficult to achieve if all landowners in a district are not supportive of the project. A CFD created to pay for operations and maintenance can be rescinded by vote. Apportionment of CFD taxes may be complex. CFDs are most typically set up for new development areas that have one up to a handful of property owners, which ensures approval of the district and allows the developer to set up structure of the CFD.

Metropolitan Districts – Colorado

Metropolitan Districts (Metro Districts) are the most widely used "special district" in Colorado. They are used both as a "development districts" to finance the construction of the new infrastructure and to finance specific improvements in older established areas. Metro districts must include two or more improvement projects or services. The districts can be used on a wide range of improvements and services (i.e., water and sewer, streets, parks and recreation, fire protection, or public transportation). To create a metro district, the district is required to submit a service plan that is authorized by the local or county legislative body. The district is formally approved by a majority vote of the impacted property owners. Once formed the district is operated by a district board of directors consisting of property owners. Districts can levy and collect ad valorem taxes on residential and commercial property. A mill levy can be allocated separately for capital construction and operations. The district can also impose tolls, fees, penalties, or charges for services and issue general obligation and revenue bonds. New districts are most often created for new, greenfield development where there is usually a few or just one property owner, which makes formation only dependent on municipal or county approval of the service plan. Historically, metro districts have been used to finance municipal improvements and provide infrastructure to newly annexed areas. Developers increasingly utilize them as a financing mechanism passing infrastructure costs to the homebuyer or end user. The frequency of use of metro districts varies greatly by city and county in Colorado, with some counties

allowing metro districts for virtually all new development and some restricting service plan approvals to a limited area. This practice can create a varied and uneven tax burden.

Infrastructure Development Zones – New Mexico

Modeled after Colorado's Metro Districts, Infrastructure Development Zones (IDZ) can be formed as a quasi-municipal corporation with the power to enter into contracts, issue debt, and tax. An Infrastructure Development Zone can include multiple cities and counties, non-contiguous but must be within 3 miles if non-contiguous. Permissible services include wide variety of municipal services such as water, sewer, roads, parks, streetscape, public safety facilities, energy facilities, telecommunications, education and cultural facilities, and others. A developer proposing an IDZ must submit a petition signed by 30 percent or 400 (whichever is smaller) of the taxpaying electors in the proposed zone. IDZs that provide the same service generally cannot overlap. Projects can be financed from proceeds from general obligation bonds; money a municipality or county contributes to the IDZ; annual property taxes or special assessments; state or federal grants or contributions; private contributions; user, landowner and other fees, tolls and charges; proceeds of loans or advances; and any other legally permissible sources. General obligation bonds are approved by an election of property owners.

Improvement Districts

Improvement Districts are formed to finance and implement a broad spectrum of public improvements such as street lighting, landscaping, and/or water and sewer improvements. Improvement districts are generally single-purpose districts and are not intended to function beyond project completion although there are exceptions to this. Typically improvement districts have a limited geography (i.e. much smaller than the city boundary) related to specifically to the area served by new improvements.

Integrated Financing Districts - California

The Integrated Financing Act establishes a mechanism for financing an expensive and large public facility by levying an assessment contingent upon development of land. All property owners within the District who choose to develop need to approve. Generally, the assessment is triggered by approval of a tentative subdivision map, a zoning change, or the receipt of a building permit. These districts are created the same way as Special Assessment Districts, which requires a majority vote weighted in proportion to the assessment liability. An Integrated Financing District allows a developer to fund a public facility and proceed with a project with some assurance that they will receive reimbursement from other property owners who will also benefit from the public facility. The front developer must assume the risk of receiving reimbursement in a timely manner. The law is relatively new and untested; therefore, bonds or debt issued under this act may be more expensive than those issued under more conventional mechanisms.

General Improvement Districts (GID) - Colorado

GIDs are created to finance identified “public” improvements (except for electric lights, gas systems, or gas plants). Initiated by a petition from a majority of impacted property owners, the district is designated and authorized by the local legislative body. A GID can levy and collect ad valorem taxes on residential and commercial property. Also, a GID can impose tolls, fees, or charges for any revenue producing services or facility within the district, as well as, issue general obligation and revenue bonds. A city can use power of eminent domain with a GID. GIDs are most commonly used to finance public infrastructure improvements within a specific area, with the needed improvement serving the properties within the GID.

<u>Special Improvement Districts (SID) - Colorado</u>

SIDs are created to finance improvements that enhance the designated area (i.e., street lighting or roadway improvements). SIDs are initiated by local legislative body or a petition from a majority of the impacted property owners. The SID is designated and authorized by the local legislative body. A SID can impose special assessment to pay for improvements based on an allocation of the total project costs. A variety of formulas can be used to determine the appropriate assessment rate (i.e., per linear foot or per square foot of improvement). A SID can also issue special assessment bonds to pay for improvements. SIDs vary from GIDs in that they are typically used for specific projects and use an agreed upon assessments (fee), instead of ad valorem taxes.

<u>Business Improvement Districts (BID) - Colorado</u>

BIDs are created to finance the construction and/or for the maintenance of "public" improvements in a designated area and to promote the growth of local businesses and the surrounding neighborhood (i.e., street lighting or marketing pieces for the district). BIDS are initiated by a petition from a majority of impacted property owners. The BID is designated and authorized by the local legislative body and operated by a district board of directors. BIDS can levy and collect ad valorem taxes on commercial property. As well as, impose tolls, fees, or charges for services, establish special improvement areas and impose special assessment, and issue general obligation and revenue bonds. There are typically some form of Business Improvement District in most states, with a wide variety of powers and restrictions depending on the State. The Colorado form is just one example with a wide variety of powers. South Dakota allows for Business Improvement Districts, which have specific revenue tools associated with them.

<u>General Improvement Districts - Nevada</u>

General Improvement Districts (GID) have the ability to levy property taxes for improvements related to construction of power plants, distribution of electrical energy, sewer systems, as well as construction or acquisition of a water system in a specific area. Collected taxes cannot be used for operational funding. The primary function of GIDs is to pay for applicable infrastructure costs associated with the construction of new subdivisions, where the developer is required to pay for new improvements.

<u>Special Improvement Districts - Nevada</u>

Through Chapter 271 of the Nevada Revised Statutes counties, cities, and town are allowed to form Special Improvement Districts (SID). Districts can be initiated by the municipality or at the request of property owners. The purpose is to finance specific improvements within the municipality such as commercial area revitalization, off-street parking, street beautification, or transportation project; among others. Under the statue, SIDs may contract with non-profits for commercial area revitalization projects. An assessment is placed on the effected properties based upon the specific properties attributes (such as assessed value, size, frontage, etc.), the proceeds of which are used to finance 10 – 30 year bonds issued by the municipality to pay for improvements.

<u>Special District – Wyoming</u>

Using an optional sales tax, cities and counties can create a special district to fund specific projects. The optional sales tax is only applied to merchandise sold within the designated district. The sale tax expires upon collection of approved amount for the specific project. By itself, this sales tax is limited to 3 percent.

Benefit District – Wyoming

Benefit Districts can be created to fund public improvements for a given subarea of a city or county that warrants improvements that are unique from those of the city/county as a whole. Benefit districts can impose impact fees on new development to fund improvements.

Special Authorities

Special authorities are quasi-municipal organizations most typically intended to halt the spread of "slum" and "blight" and redevelop deteriorating areas. These authorities are designed to address multiple projects over a period of time. Special Authorities are typically the only authorities authorized to use tax increment financing. The special authorities in other states are similar to tax increment districts in South Dakota. The use of redevelopment authorities and TIF in other states is most often focused on improving existing, urban areas. Two of the states profiled, Colorado and Nevada, limit the use of TIF in undeveloped, greenfield areas.

Urban Renewal Authority (URA) - Colorado

Urban Renewal Authorities set up urban renewal areas/districts to eliminate "slum" and "blight" and finance improvements (i.e., removal of dilapidated buildings or road improvements). URAs are initiated by a local agency or a petition from a majority of the impacted property owners. To form a URA, a "blight" designation and approval of a development plan is needed. URAs can receive grants, loans, and contributions, sell or lease property, issue general obligation and special obligation bonds as well as utilize tax increment financing (both sales and property tax increments). Tax increment financing (TIF) funds can be used on a "pay as you go" basis or to support revenue bonds. URAs also have the power of eminent domain. Recent legislation in Colorado precludes the use of urban renewal in greenfield areas.

Downtown Development Authority (DDA) - Colorado

DDAs are formed to develop and redevelop the central business district and finance improvements (i.e., preparation of economic studies or removal of dilapidated buildings). Initiated and designated by a local legislative body, a DDA requires "blight" designation for approval and to be formally approved by a majority vote of the impacted property owners. The DDA is operated by an appointed authority board of directors and is required to have a development plan approved before starting projects. There can only be one DDA per municipality. DDAs can collect and levy an ad valorem tax on property (up to 5 mills), impose fees or charges for services and special assessments, issue revenue bonds, as well as utilize Tax Increment Financing (both sales and property tax increments).

Metropolitan Redevelopment Act (MRA) – New Mexico

The Act is an effort to address blight and slum-like conditions in municipalities in New Mexico, by allowing them to create redevelopment authorities. Through the authorities, municipalities are authorized to acquire, own, lease, improve and dispose of properties in a metropolitan redevelopment area to create employment and improve economic activity. Municipalities must be able to promote industry and develop trade or other economic activity; mitigate the serious threat of extensive unemployment and maintain a balanced and stable economy in an area declared to be a slum or blighted. Housing is an acceptable end, but acceptable uses are varied. A municipality can use all powers except eminent domain to accomplish the goals. The main revenue source available to redevelopment authorities is tax increment financing.

Redevelopment Agency - Nevada

Authorized under Chapter of 279 of the Nevada Statute, the primary financial tool for redevelopment in Nevada is the creation of a Redevelopment Agency. The Agency is created at the municipal level by the appropriate legislative body with a board consisting of the general public and legislators for four year terms. For cities of 300,000 or more, 15 percent or more of property tax revenue must be set aside to improve and preserve the number of low-income dwelling units in the community.

To create a redevelopment area, a community must have a planning commission and master plan. If the prerequisites for a redevelopment area considerations area met, a resolution designating an area for evaluation must be submitted by to the legislative body. Any area under consideration must at least 75 percent of its land be improved. A Redevelopment Plan must be adopted and approved by the legislative body which includes a finding of blight, approved plans allow for financial tools to be utilized. Redevelopment areas, through the agency, can use tax increment financing, receive grants, loans, and contributions, utilize revolving loan funds, and sell or lease property. The redevelopment agency can utilize tax increment bonds. Tax increment financing funds can be used on a pay as you go basis or to support revenue bonds that are limited to 20 year timeframe. The authority also has the power of eminent domain.

Urban Renewal Authority – Wyoming

For redevelopment of a blighted area, a municipality may prepare an urban renewal plan. The URA has the authority to set aside the increment of net new tax proceeds, to levy taxes or assessments, and to issue bonds to fund infrastructure improvements.

Developer Agreements

There is a wide range of project specific revenue share agreements possible to be negotiated and included in a development agreement. The most prevalent public investment options are described below.

Certificates of Participation (COPs)/Lease Financing – California & Colorado

A COP enables a public agency to lease a property from a third party such as a non-profit corporation or a joint powers authority. The COPs are sold to investors who are repaid by lease payments made by the public agency. COPs are often used to allow for a private developer to obtain financing to construct a public facility. The facility is ultimately owned by a third party with lease payments coming from the public agency. COPs do not create new revenues for financing a public facility. The lease payments must be tied to a revenue source such as the general tax base or user fees; e.g., a water treatment plant could be repaid with water service fees. COPs are not considered debt to the public agency and therefore do not require voter approval unless the COP is supported by an installment sales agreement. The procedure depends on the statutory leasing authority of the agency. In some instances it may be necessary to competitively bid the lease pursuant to laws pertaining to the acquisition or disposition of publicly owned properties. Tax exempt COPs created for public purposes and have a lower interest rate than bank loans. COPs may be used to finance almost any real property. The COP encumbers the leased property and therefore may complicate future dispositions of such property and adds complexity to the control of the property by the leasing entity. COPs are also used in Colorado but not commonly.

Public Improvement Fees – Colorado

A public improvement fee (PIF) is a sales fee imposed by the developer on tenants; the tenants in turn typically pass on the fee to the consumers. A developer uses lease terms and other real

estate agreements to impose the PIF. PIFs are used generally to finance public improvements (e.g. parking structures, streetscape improvements, and other forms of infrastructure). A PIF agreement must be a part of the development agreement negotiated with the governing municipal body. The governing municipal body initiates the PIF by approving the development agreement through resolution or ordinance. Typically the local jurisdiction agrees to collect the PIF and filter funds to either a Public Improvement Corporation or Special District. The Public Improvement Corporation or Special District finances the improvements. However, sometimes the PIF funds are funneled to the developer directly for repayment for infrastructure improvements. Revenue is generated by collecting a fee charged on sales. A PIF is not a tax but a fee; therefore, it becomes a part of the overall cost of the sale/service and is subject to sales tax. The total cost of the item plus the PIF is then taxed at the normal sales tax rate. Local jurisdictions often voluntarily reduce their sales tax rate within the PIF boundary in order to keep the total charge competitive with other retail outlets. This commonly referred to as a Credit PIF. PIFs are most often used for large retail development projects, where sales will generate enough funds through a PIF to fund improvements. Many of most recent, large retail developments in Colorado have some sort of PIF agreement.

Revenue Sharing – Colorado

Revenue sharing structures an agreement between a local jurisdiction and private entity for reimbursement of construction of public improvements and/or as an incentive to a specific store tenant. Revenue sharing may include either sales tax or property tax. In practice, a city will agree to share a portion of the net city sales tax or sales and property tax proceeds with the developer over a specified time period and/or up to an agreed upon maximum limit. A revenue share agreement must be a part of the development agreement negotiated with the governing municipal body. The governing municipal body initiates the revenue share by approving the development agreement through resolution or ordinance. A portion of the sales or property tax is remitted to the private entity in order to reimburse the cost of public improvements. Local jurisdictions often require a guarantee against lost revenue either in the form of a clawback or bondable leaseholds on tenant space. Some cities have passed ordinances establishing a sales tax sharing program, referred to in some cases as an enhanced sales tax incentive program (ESTIP). The ordinance defines the types of projects where sales tax sharing can be used, the criteria for consideration, the use of funds, and the amount of sales tax that can be shared. A formalized program allows for more clarity in use for the public and development community and it prevents sales tax sharing on ad-hoc basis, which is often the case in Colorado.

Tax Abatement – South Dakota

Tax abatement is allowed in South Dakota. County commissions may abate from 0 percent to 100 percent of the property taxes on a new structure or an addition to an existing one. This abatement is available on all industrial, commercial and non-residential agricultural structures with a value over $30,000. The property tax liability after construction cannot be less than the tax liability prior to construction. An abatement program in Rapid City would require Pennington County approval and participation.

Sioux Falls has a “Reduced Taxation Incentive Program” created to stimulate development within Sioux Falls. The program allows for up to five years of property tax abatement for certain construction and development projects which add net taxable property value to the community. Projects within the downtown and core neighborhoods may be eligible, as are city-wide industrial and business projects.

City / County Wide Options

There are a variety of financing options are available to local governments for funding infrastructure improvements that generate revenue from a city-wide or county-wide population, most are structure as an increased sales or property tax with a defined purpose and/or limited time frame.

Impact Fees – Various States

Impact fees are an effective way to generate revenues for infrastructure improvements by ensuring that development pays its fair share for needed capital improvements. Costs for a portion of new infrastructure can be paid by and in proportion to incremental new residential and non-residential development. The fees typically vary in amount based on the use and size of building, which is determined based on the study completed to determine the need for fees. Impact Fees are most commonly used to pay for the expansion of City/County enterprises such as water, sewer, parks and schools to serve new users created by new development.

Revenue Bonds/Public Enterprise Bonds - California

California allows for the use of revenue bonds as a mechanism for financing facilities that provide benefits to a group of easily identifiable users, e.g. service users. A resolution must be adopted by a majority vote of the governing body of the local agency stating the purpose of the proposed issue, the cost, and the terms. Revenue bonds do not generally constitute a debt to the issuer since they are paid directly from income generated by the facility. These types of bonds are only appropriate for financing facilities that have a guaranteed revenue stream such as sewer and water plants.

Marks-Roos Local Bond Pooling - California

The Marks-Roos Local Bond Pooling Act of 1985 allows public agencies/joint powers authority to use a pool financing technique. Marks-Roos Bonds must be authorized by a resolution adopted by the joint powers authority at a regular or special meeting of the joint Board. The participating local agencies must also approve the use of this mechanism and make the determination of "significant public benefits." Using the bond pooling allows for the financing of several small projects and potentially reduces borrowing costs due to economies of scale. The pooling allows for smaller projects to access debt markets and avoid direct liability. Pooling may increase complexity of the financing instrument and create possibly higher borrowing costs due to enhanced credit needs.

Local Redevelopment Act (LEDA) – New Mexico

The New Mexico Redevelopment Act (LEDA) was passed by the state legislature in 1994 to give local governments the ability to be involved in economic development. LEDA provides local governments the ability to raise revenue through the sale of bonds. Funds may be used to provide land, buildings, infrastructure to support business retention, growth, and development.

In order to use funds to support economic development, LEDA requires local government adopt an economic development plan or a master plan with and economic development component. There is a cap on the amount of money that can be spent on economic development equal to 5 percent of general fund expenditures.

There are several allowable economic development projects including purchase, lease, grant, construct, or reconstruct buildings or infrastructure; acquire or convey land; provide direct loans or loan guarantees for land, buildings or infrastructure; provide public works essential to location and expansion of business. Retail and farming businesses do not qualify for local funds.

To fund economic development activity approved by LEDA, municipalities and counties may levy an Infrastructure Gross Receipt Tax (I-GRT). I-GRT must be approved by a majority of voters before it takes effect. Municipalities may impose a maximum ¼ of one percent tax; counties are limited to 1/8 of one percent tax. These can be augmented with state grants. The funds can be used to replace, repair, or construct infrastructure, for general municipal or county services, to pay debt service on bonds, and expand or improve public transportation.

5th Cent General Purpose Optional Tax - Wyoming

The 1st through 4th cent sales tax in Wyoming is statutorily set at 4 percent, with 69 percent dedicated to the state general fund and 31 percent to local governments. The portion allocated to local government is distributed on a per capita basis. The optional 5th Cent General Purpose Tax is used for general funding for city and county governments, and is renewed through a voter-approval process every four years. Most local governments have renewed this as a matter of course since it was first established. By itself, this tax is limited to 2 percent.

6th Cent Sale Optional Tax – Wyoming

Sometimes referred to as the SPET (Special Purpose Excise Tax) or 6th cent tax, it is an additional one cent sales tax available to counties (and projects in a city through ballot measure) that can be applied to capital improvements. The tax requires voter approval for a specific improvement or set of improvements, and when the improvements are paid off, the tax expires. By itself, this tax is limited to 2 percent.

Optional Sales Tax - MAPS Initiative – Oklahoma City, OK

In order to raise funds to revitalize the downtown area of Oklahoma City, the citizens of the City voted to approve a temporary 1.0 percent sales tax increase, which has transformed into an on-going initiative. MAPS initiatives fund pre-specified projects with a limited term, one-cent sales tax. The projects in each MAPS initiative are built debt free and are complete once funds are raised with some projects completed after the tax increase time period has expired. The first MAPS initiative focused on projects aimed at revitalizing the downtown of the city and included new and upgraded cultural, sports, recreation, entertainment and convention facilities. The first MAPS initiative was an overwhelming success, which has led to subsequent efforts including "MAPS for Kids" which focused on improvements to the public school system and has led to the passage of a third MAPS initiative. Every MAPS initiative has been a 10 to 12-year process. The initiative is a success because it creates tangible results and community amenities, projects are delivered within the funding provided, projects are clearly defined at time of approval, the increase in tax is limited in time period, and each initiative is approved by the citizens.

New Approaches in Rapid City

The tools described above provided the basis of how other states finance infrastructure improvements, which will enable the City to explore possible approaches to consider. As mentioned previously, there are potential legal barriers to use of many of these tools in South Dakota and an action plan would identify the City's role in changing legal structures. Below are a serious of approaches the City can explore to financing public infrastructure and amenities.

Grow the Tax Base

Growing the existing value of property in the City is most often first approach cities take to generating more revenue. Investments in the City can have a positive impact on property values of existing uses. In recent years, the City Council has decided not to take the allowed growth in tax base of up to 3 percent or CPI. By not taking this increase in the tax base, the City is not reaping the benefit of efforts to increase the value of the City. Furthermore, the cost to provide services to the City residents does not remain constant. The cost of doing business for private and public sector often grows at the same rate at which the economy, consumer prices, and incomes increase. By not allowing the tax base to grow at the same rate that costs for services increase, the City is creating a gap between revenues and costs artificially. Not realizing the increased benefit from increased values of existing property puts a greater pressure on the City to grow outwards, which will most likely need public investment to facilitate. Alternatively the City could approach increases in the property tax base by aiming to keep a constant tax rate for property owners. A constant tax rate will allow property owners to have a sense of certainty from year to year. It will also enable the City to benefit from rising property values and eliminate the current practice of reducing rates to offset appreciation.

Redefining the Use of TIF

The popularity of tax increment financing in South Dakota, specifically for new infrastructure improvements in greenfield areas, is due to the limited number of tools available to cities and developers in South Dakota. The use of TIF varies greatly in the State, but is most prevalent in Rapid City. Sioux Falls, by comparison, has approved 18 TIDs compared to 74 in Rapid City. The use of TIF to fund public improvements that primarily serve a specific geographic area places the burden/cost of growth on to entire communities and not users that are provided a direct benefit. Traditionally the use of tax increment financing in the Western US has been for aiding areas that need public intervention to make market rate development feasible and is often used in a targeted, area specific manor. While Rapid City has criteria for using TIF that stipulates projects requiring funding only if the project was not feasible otherwise, the burden of proof of this stipulation is low. Increasingly in other states in the US, the powers of entities that use TIF have been curtailed due to perceptions, justified and unjustified, of miss-use. As shown previously, Colorado has restricted the use of urban renewal and TIF in greenfield areas. California has recently to ban redevelopment authorities and the use of TIF. With growing scrutiny on this tool, the City could consider refinements to its use to ensure new projects approved are defensible and meet the objectives of the City. Changes that the City should consider include increasing the burden of proof of project feasibility, limiting or preventing the use of TIF in greenfield areas, and/or requiring the use of TIF only on projects that have a City-wide benefit or meet City-wide goals.

Any changes to the current use of TIF will generate some push back from the development community. As well, curtailing the use of TIF will reduce the tools available to developers and the City to provide public infrastructure and facilities. Additional approaches and tools to providing

infrastructure and services in new growth areas are essential if the use of TIF is restricted or refined. There have been efforts in recent years in the State to further restrict the use of TIF, which is the case in most western states. Any future restrictions in the use of TIF will only increases the need for alternative approaches.

Explore Home Rule Status

The South Dakota legislature proposed a constitutional amendment in 1961, which was approved by voters in 1962, allowing cities in South Dakota to become home rule. Subsequent amendments expanded home rule to counties and the combination of counties and cities to become home rule, but also restricted the powers of home rule cities, including forbidding home rule units from changing assessment practices and procedures related to ad valorem taxation. Additional restrictions approved in 1996 prevent home rule units from establishing or increasing any tax or fee that is not allowed to be enacted or increased by non-home rule units. Home Rule charter gives a municipality any legislative power or power to perform any function not denied by its own charter, the State Constitution, or laws of the state. To date, very few South Dakota cities or counties have become home rule, with many finding the advantages not worth the effort. Many early attempts to become home rule, including one in Rapid City in 1965, failed. The main advantage of home rule is the ability to determine government structure and functions that city has and provides. The status provides flexibility in how cities function and the services they provide, however the restrictions on revenue generation do not provide the same flexibility in determining how to pay for services or programs, as is the case in other states. The City should explore the benefits to revenue generation and effective community investment of becoming home rule.

Create a Tax Abatement and Revenue Sharing Program

The use of tax abatement is allowed in South Dakota. The barrier to use in Rapid City is the willingness of Pennington County to allow it. Developing a tax abatement program is easiest step the City can take to create a new incentive tool. A tax abatement program can serve as a replacement to the use of TIF for economic development efforts and tie incentive funds directly a specific use. In communities that use Tax Abatement, the tool is tied to the creation of public amenities or development, but can also be used as an incentive tool that do not have significant requirements from developers. The City should begin discussions with the County to form an abatement program. A collaborative program between the County and City is the best way to build support for the program. The use of the tool should be targeted to specific purposes and have clearly defined and stringent criteria for us. Use of abatement for economic development efforts, especially business recruitment, and for incenting affordable housing development, is the most logical application of this tool. The City should also explore and consider varying levels of participation for taxing entities. They City could approach using abatement with only dedicating a portion of County and School District taxes, while committing the City's entire portion of the tax. The City should also determine if it can abate its own portion of property tax without County consent.

Rapid City should also explore the legality of sales tax sharing with developers or businesses. A program can be created that allows for the use of sale tax generated by a new project, in return for providing public infrastructure needed for the project or to enhance the quality of the project. This program could replicate a common use of TIF by the City but with sales tax. Typical sales tax sharing agreements require the creation of public infrastructure or amenities and are limited to a certain portion of sales tax generated. The amount shared by communities is most often tied to specific project costs that generate a public benefit. The length of time for sharing is also

specified and as well as a maximum yearly contribution. Several communities that use sales tax sharing restrict the portion of sales tax shared to the sales that are "net new" to the community. This means the developer/retailer must illustrate how a new store(s) will generate increased sales within the City that are not already being spent at stores in the City. The use of a public improvement fee (described previously) acts similarly to sales tax sharing, especially if the City uses a "Credit PIF". The use of PIF, since it is a developer/tenant agreement approved by the City, instead of direct sales tax sharing may better work within State regulations.

Explore using tools that shift cost burden to those with a direct benefit

Several new development projects in Rapid City have been effectively subsidized by Rapid City through the use of TIF. In these instances new development is not paying its own way and the cost of growth is being paid for by City-wide (and County-wide) property owners. Rapid City should explore the creation of new tools that allow for the cost of infrastructure to support new development to be shifted onto those who directly benefit.

Several states allow cities to use some sort of improvement district (controlled by the City) or special district (controlled by affected land owners) to pay for public infrastructure improvements and services. The use of improvement districts is most direct way to tie infrastructure costs with direct users. The most effective use of improvement districts is for projects that provide a specific improvement to an area and are limited in scope, cost and time frame. The City should identify the barriers to implementing improvement districts in South Dakota. Improvement districts are generally controlled by the local municipality, which is should be the preferred approach opposed to special districts that only require city approval.

Several western states allow for the creation of special districts, which are quasi-municipal corporations, which act like municipalities, to provide specific services to areas in lieu of a city or county providing them. These types of entities are more popular in unincorporated areas were municipal services do not exist. This type of entity could potential be a way to work around the state regulations regarding cities and counties in South Dakota. These districts charge fees and taxes that are directly related to the improvements and services they provide allow for a direct linkage between improvements/services and fee/tax charges for them, which is more politically palatable. However critics of such entities point to the lack of control cities and counties have over these districts. The freedom of these types of districts is in conflict with the current reasoning (i.e. concerns over decentralization of power) for strict controls on cities in South Dakota.

Impact fees are another method local governments can use to ensure that adequate public facilities are provided concurrent with new development. Most communities require developers to provide all on-site public infrastructure (or bonds to ensure future construction) as part of subdivision approvals. These include roads, parks, school sites, drainage facilities, sidewalks, wet and dry utilities, and other types of infrastructure. Most development generates off-site impacts and the mitigation requirements, depending on their size and nature, can sometimes provide benefits to the new development as well as the existing community. Determining the portion of the needed facilities attributable to a specific development has been historically challenging and sometimes contentious. Moreover, the scale of some community facilities (i.e., a library) is such that the threshold for mitigation is rarely reached by individual development proposals. Impact fee programs are an outgrowth of the development approval process that enables local governments to ensure that the cost of needed facilities is borne proportionately by each new development proposal. Thus, an impact fee program can be viewed as a comprehensive system that reduces but does not necessarily eliminate the need to develop

exactions for individual projects. An impact fee program for facilities and/or services the City needed to serve new residents should be considered. Impact fees are most often used for water, sewers, or roads, but other uses can include parks, open space, trails, recreation amenities, libraries. The City could first explore impact fees for improvements that most commonly need expansion due to new development but often lack funding or require TIF funds to allow developers to provide them.

By shifting the cost of new infrastructure on to the developer and future owners in new growth areas, the City can reallocate resources to existing facilities. Simply requiring a developer to pay for all improvements needed to develop a new area may lead to some projects becoming infeasible. The use of alternative tools, such as improvement districts, will allow developers, with the City, to make projects feasible.

Revamp the revenue structure of the City's Enterprise Funds

The City should revamp the service cost structure of its enterprise funds for water and sewer to generate sufficient revenue to offset the cost of serving new users and do away with the need for utility support fund. The City should explore creating differing rate structures for new development areas in the City, which could allow the City to charge more to new users of the system to pay new improvements. Increased connection fees should also be explored to offset the cost of extending services to new users or creating differing fee structures for new connections in areas needing improvements to receive services. Lastly, the City could explore creating a formalized developer improvement program that can use future connection fees and service fees to repay developers for creating system extensions or creating connections that will serve areas outside of their development. This practice currently occurs in limited cases, but a formalized program will provide clarity for repayment for developers and allow them to weigh risks of participation. Participation in certain areas or specific cases may also be used as an incentive to leverage larger system expansion.

The City is currently exploring creating an enterprise fund for storm water as a way to collect fees for use of storm water facilities. This effort is a good attempt to tie cost of service to users and should be encouraged. However, the creation of additional enterprise funds is only recommended for services that have a direct users and where fees for services are provided.

Align the use of tools with priority areas and objectives

The City could explore limiting the use of public financing tools to high priority growth or redevelopment areas. This practice will direct the private investment in areas the City is planning for growth and provide incentive for developing in that area. To increase the attractiveness of the priority areas, the City can align their capital improvement program to focus on priority areas. Development outside priority areas does not have to be discourage but city participation, with tools or incentives, will not occur in these areas placing the burden and cost for needed improvements on the developer and future users. The use of public financing could be tied directly to economic development objectives and community objectives.

Expand tourism taxes

The City should consider encouraging state legislative changes that allow for the expansion of tourism related taxes and fees. The State recently increased the rate of their dedicated tourism sales tax rate by 0.5 percent. Rapid City could try to encourage legislative changes to allow for higher rates or expand powers for cities for tourism related taxes and fees. Of the revenue mechanism that raise the tax burden, increased tax rates on tourist likely have least impact on

residents as they are charged on things such as lodging where revenue is driven largely by out of city and out of state tourists. Tourists to Rapid City also generate an added burden on municipal services and allowing for revenue sources tied to tourism to be controlled by the City will allow for the City to more efficiently and equitable offset this burden.

Fiscal Impact of Development

In order to provide a basic understanding of the relative impact of new development in Rapid City, EPS summarized the fiscal impact of new development from several fiscal impact analysis performed by EPS. A fiscal impact analysis for Rapid City was not in the scope of work for the comprehensive plan, and a full analysis requires a significant level of effort to understand the city budgeting and service provision practices. Information on the fiscal impact of new development in other communities is meant to illustrate the relative impact that is likely present in Rapid City without a full analysis.

EPS has performed several fiscal impact studies in the western US in the firm's history. The majority of the firm's fiscal impact work has been performed in either California or Colorado. The per unit or per square foot factors for on-going revenue and expenditure for new development from 10 fiscal studies completed by the EPS Denver office over the past 10 years are shown in **Table 1.** The on-going (i.e. annual, recurring) factors for single family homes, retail and office space are shown. In general, residential uses generate a net fiscal deficit for cities, while retail development generates a net positive impact. Office uses generally have a minimal impact, either positive or negative. The taxation structure in Colorado is different from South Dakota. Sales tax generally makes up larger portion of annual revenues for cities in Colorado because sales tax rates for cities are typically higher than the allowed for cities in South Dakota. Also, the rate used to calculate assessed value of residential property in Colorado is approximately a ¼ of the rate used for commercial properties, which puts a higher value on commercial development from a fiscal standpoint. Despite the taxation differences, the same findings by use are likely similar for South Dakota cities.

Of the studies shown in Table 1, the average cost of single family home to a city is $1,302 annually, compared to $870 in revenue generated by the home. The average net fiscal deficit is $432 annually. The fiscal impact of new homes varies in fiscal impact studies because primarily of two factors; home value and home size. More valuable homes generate more revenue and are able to cover the cost to serve them. Smaller homes, most specifically by number of inhabitants, typically have a lower cost of service. As one might assume, retail development creates the greatest fiscal benefit to cities. The average net fiscal benefit generated by retail was found to be $3.06 per square foot annually. The large net benefit for retail is sometimes used as an argument to limit residential growth and/or greatly incentivize retail. The understanding that residents generate demand for retail and the retail is not supportable without residents is essential weighting the benefits and costs generated by uses. The net benefit or deficit generated by difference uses illustrates the need for a balanced land use plan.

In most of the fiscal studies completed by EPS, there is analysis of the one-time cost and revenues generated by new development. It is difficult and sometimes not possible, to annualize one-time costs and revenues for comparison. Typically the net fiscal difference between one-time costs and revenues are analyzed along with the on-going impact. In many cases, the one-time costs and revenues for are almost completely dependent on the attributes (i.e. size, location, mixture of uses) of the development and an average for a city is not determined. For the studies

included in **Table 1** that had a citywide average for costs or revenues, the per unit or per square foot factor is shown.

Table 1
Net Fiscal Impact by Use, EPS Project Examples

Community	On-Going			One-Time		
	Single Family (per Unit)	Retail (per SF)	Office (per SF)	Single Family (per Unit)	Retail (per SF)	Office (per SF)
Revenue						
Louisville, CO - 2012, 2013	$863	$3.08	$0.37	$11,516	$2.86	$2.84
Superior, CO - 2012	$590	$3.46	$0.69	$7,689	$2.48	$2.72
Adams County, CO (Unincorporated) - 2012	$747	$0.98	$1.14	Included in On-Going		
Adams County, CO (Incorporated) - 2012	$747	$0.98	$1.14	Included in On-Going		
Basalt, CO - 2009	$1,094	$3.30	$0.27	Project Based		
Carbondale, CO - 2008	$459	$4.66	$0.11	Project Based		
Park County, CO - 2009	$576	$1.75	$0.54	$2,112	$1.10	$1.10
Fairplay, CO - 2009	$859	$5.68	$0.57	$2,112	$1.10	$1.10
Broomfield City/County, CO - 2008	$1,526	$3.74	$1.04	$9,092	$22.34	$3.69
Kansas City, MO - 2005	$1,052	$6.12	---	Not Included		
Durango, CO - 2003	$1,056	$7.82	$0.14	Not Studied		
Average	**$870**	**$3.78**	**$0.60**	**$6,504**	**$5.97**	**$2.29**
Expenditures						
Louisville, CO - 2012, 2013	$1,321	$1.05	$0.37	$11,209	$9.56	$4.26
Superior, CO - 2012	$949	$0.71	$0.66	Not Studied		
Adams County, CO (Unincorporated) - 2012	$2,027	$0.37	$0.35	Included in On-Going		
Adams County, CO (Incorporated) - 2012	$852	$0.15	$0.14	Included in On-Going		
Basalt, CO - 2009	$1,278	$0.40	$0.44	Project Based		
Carbondale, CO - 2008	$1,256	$0.31	$0.31	Project Based		
Park County, CO - 2009	$683	$0.30	$0.31	Project Based		
Fairplay, CO - 2009	$1,131	$0.79	$0.88	Project Based		
Broomfield City/County, CO - 2008	$1,716	$0.99	$0.99	$7,268	$3.62	$3.62
Kansas City, MO - 2005	$1,664	$2.52	---	Not Included		
Durango, CO - 2003	$1,447	$0.27	$0.33	Not Studied		
Average	**$1,302**	**$0.71**	**$0.48**	**$9,239**	**$6.59**	**$3.94**
Net Impact						
Louisville, CO - 2012, 2013	$458	$2.03	$0.00	$307	$6.70	$1.42
Superior, CO - 2012	$359	$2.75	$0.03	Not Studied		
Adams County, CO (Unincorporated) - 2012	$1,280	$0.61	$0.79	Included in On-Going		
Adams County, CO (Incorporated) - 2012	$105	$0.83	$1.00	Included in On-Going		
Basalt, CO - 2009	$184	$2.90	$0.17	Project Based		
Carbondale, CO - 2008	$797	$4.35	$0.20	Project Based		
Park County, CO - 2009	$107	$1.44	$0.22	Project Based		
Fairplay, CO - 2009	$272	$4.89	$0.31	Project Based		
Broomfield City/County, CO - 2008	$190	$2.75	$0.05	$1,824	$18.72	$0.07
Kansas City, MO - 2005	$612	$3.60	---	Not Included		
Durango, CO - 2003	$391	$7.55	$0.19	Not Studied		
Average	**$432**	**$3.06**	**$0.12**	**$1,066**	**$6.01**	**$0.68**

Note: Single family home value of $300,000 was used for all communities. Retail and office value was dependent on the assumptions used in the study
Source: Economic & Planning Systems

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One-Time Fees on New Development

EPS surveyed seven larger communities in relative close proximity to Rapid City to compare the cost to develop a single family home in these communities: Bismarck, ND, Sioux Falls, SD, Billings, MT, Lincoln, NE, Cheyenne, WY, and Fort Collins and Loveland, CO. All cities surveyed have a building permit and plan check fee, which typically range in cost from $1,000 to $2,000 for a single family home valued at $300,000. All of the cities surveyed also have a set of fees associated with different applications in the development process including application fees for annexation, subdivision plats/plans, rezoning, etc. Also all of the communities charge some nominal fee for connecting to water and sewer systems, which are usually under $200. Additional fees beyond the commonly charged fees, such as building permits and connections fees were inventoried for the comparable cities. The comparison of fees by community is shown in **Table 2.** The additional per unit cost for home ranged from $0 in Bismarck, ND to $23,530 in Fort Collins, CO.

The fees shown in most cases were created as a way for the cities to collect or recover cost for expansion of municipal services. The fees found varied in name and in function but most were in some type of impact fee. The fees were most typically charged at time of building permit application or reception of a certificate of occupancy. The most common upfront fee was for water and sewer infrastructure, with six of the seven communities having a water and sewer fee. The next most common fees were for streets and stormwater.

Bismarck, ND had no additional fees for development of single family homes above building permit fees and basic application fees. Rapid City also has no additional fees.

The other South Dakota city that was surveyed is Sioux Falls. Sioux Falls charges what is termed as a plat fee that is collected as a cost recovery mechanism or capital expansion revenue generator for infrastructure improvements for streets, water, wastewater, and stormwater. There are five fees; the drainage system cost recovery fee, the regional detention charge, the water distribution platting fee, the arterial street platting fee, and the major sanitary sewer cost recovery fee. The fees are charged as part of any plat or replat application. The fee is charge on a per acre basis for the total acreage of the plat. In **Table 2**, the fee is based on the assumption that homes are built at a density of 5 units per acre and the per acre fee is divided by 5 to estimate a per unit fee. Four of the fees are applied city-wide at the same rate. The major sanitary sewer cost recovery fee is dependent on the area of the City the platted property is in. The estimated additional cost for a new home developed in Sioux Falls is $1,574. Loveland and Fort Collins had the highest fees per unit, with both charging over $20,000 per unit.

There were a few unique programs found in the survey. Three of the communities required or charged for impact studies, most commonly for traffic or drainage, to determine the needed improvements to surrounding infrastructure caused by the new development (these costs are not shown in the table). The studies are used to determine the improvements the developer must make for approval of the project. There is a formal developer cost recovery program in Cheyenne in which developers building major infrastructure expansions that served other properties can be repaid by the fees collected once the benefiting properties are developed. This type of program is present in many communities, but more often an informal program that is agreed upon in a case by case basis. Lincoln has an annual assessment for road maintenance, which is essential a property tax, but it is directly used and applied for only road maintenance. Some of the communities charge a use tax on construction materials (calculated based on estimated development cost) that generates revenue for capital improvements.

Table 2
Development Fees by Community

Category	Rapid City, SD	Bismarck, ND	Sioux Falls, SD	Billings MT	Lincoln, NE	Cheyenne, WY	Loveland, CO	Fort Collins, CO
Per Single Family Home								
Park, Open Space, Trails					$334	$650	$6,386	$3,235
Fire							$736	$183
General Government, Cultural							$2,282	$231
Police							$957	$127
Streets			$331		$2,466		$2,170	$3,056
Electrical							$1,630	$821
Water			$331	$2,450	$1,261	$7,071	$5,070	$9,591
Wastewater			$445	$1,560	$624	$1,473	$2,510	$3,493
Stormwater			$468					$1,193
School								$1,600
Total	**None**	**None**	**$1,574**	**$4,010**	**$4,685**	**$9,194**	**$21,741**	**$23,530**

Source: Economic & Planning Systems

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