

# PAGOSA DAILY POST

## Greeting of the Minds, Part One

Glenn Walsh | 8/15/08

“It has been quite contentious at times. This right here is an indicator of how far we have come,” Mayor Aragon said, hopefully, as he addressed the assembled crowd in the South Conference Room of the Pagosa Springs Community Center. More specifically, Aragon was surveying with approval the very small crowd that assembled at the Community Center.

Three months ago, so many discontent local business owners crowded into this same room at a Town Council forum that the Council and attendees, with chairs in hand, had to be reconvened in the larger Senior Center lunchroom, which was barely able to contain the crowd, and that crowd’s discontent with the local economy.

But last Wednesday, fewer than ten folks attended, half of them candidates for local office. In fact, few members of the Town, County, and Pagosa Area Water and Sanitation District boards attended. Fred Schmidt, President-In-Fact of the San Juan Water Conservancy, was absent, continuing his crafty rope-a-dope with local media and meeting audiences that might ask point blank in a public forum about the private business frauds he has been found guilty of perpetrating.

In part, of course, Aragon was right. Progress has been made. The PAWSD board has dramatically lowered their commercial impact fees and extended a five-year payment plan to new customers. It has, however, also raised fees on many single-family homes. And the Town acted quickly to establish a ten-year payment plan for its medley of new construction fees, at a low 4% interest rate, though the Town has actually raised total impact fees on commercial and residential construction.

And in part, the mayor was being hopeful about the local economy. Local business people with whom I have attended scores of meetings, public and private, are quite simply suffering from meeting fatigue, and many have lost faith that anything will happen which will lift their low bottom line this year.

At this week’s PAWSD board meeting, at which new much higher impact fees were approved for large homes (a large home will now be assessed a \$24,000 reservoir fee), only one PAWSD critic attended. The board room had been standing room only for the three previous months.

Regulation of local business advertising was a key demand made by local business people three months ago. Such regulation has not been relaxed. Example: the sad predicament of Lois Higgins and her “Made in Colorado” sign continues. Higgins is not permitted to straighten her listing 20-year-old sign outside her store. It no longer complies with regulations, and cannot legally be repaired or repainted.

Aragon has, to this observer, been the public official most deeply affected by the local business recession and the deep divisions it has created between the business community and local governments over impact fees and business regulation. Aragon, a former boxer, has objected to the recent rounds of bareknuckle political fighting and fingerpointing which have taken place between local boards and their critics, and at times between the local boards themselves.

Aragon has a well-developed sense of who to call upon to set the tone for a meeting. Here he called on John Ranson. Ranson, a former member of the County Financial Task Force and a County Commission candidate, lamented all the rancor, but tried to relate the crisis local businesses are facing. “It is not a blip, and not

entirely the national economy, and it is going to get worse before it gets better. I know multiple businesses that are planning on shutting down very soon unless they have a banner summer.” Ranson patiently explained how a three-part “financial perfect storm” — enactment of large impact fees, a deep County financial crisis and the national real estate crisis — had flattened the local economy.

Everyone who spoke after Ranson focused on the need for the Town, County and PAWSD to work cooperatively to establish joint impact fees that allow for the construction of key projects without stalling the growth those projects presume.

Most comments were optimistic and metaphorical. Local businessman and Town Planning Commissioner Teddy Herzog was eloquent, gently critiquing PAWSD for “working off in their own little silos, working diligently, working intelligently, but working alone. We need a community dialogue.”

Commissioner Ronnie Zaday was more blunt. Zaday reminded everyone that the EPS impact fee study which the Town adopted in 2006 had been sponsored by all the districts, characterizing the controversial study as a “community-wide attempt to address all the needs of the community.” Because the Town adopted the EPS proposal and the County and PAWSD did not, it has become generally known as the Town’s impact fee study.

Can this plan still become the basis for a reasonable, cooperative approach to impact fees?

Economic and Planning Systems, based in Berkeley, California and Denver, is a highly regarded consulting firm specializing in public finance, land use and regional economic planning.

EPS was hired in 2005 by the Town, County and PAWSD to develop a medley of impact fees which could be assessed against new homes and commercial construction to help pay for necessary and desired capital projects.

EPS accepted the ambitious growth assumptions of the Colorado Demography Office, which forecast five thousand new homes and 1.7 million square feet of new commercial development by 2020.

The EPS Impact Fee Report is the most thoroughly researched and comprehensive attempt to finance County-wide capital projects to date. The report targeted key big-ticket projects — complete reconstruction of the primary road system, new County Courthouse, recreation center, parks, trails, new fire stations, school land and a new reservoir — and proposed a modest maximum fee of \$4,944 for each new home. Impact fees for commercial structures are less modest (and more debatable in a sales tax based economy) and based on square footage and type of business. For example, road impact fees range from \$1400 to \$3700 per 1,000 square feet.

These impact fee recommendations were modest, in large part, because the costs were based on 2004 dollars and older, outdated projected estimates.

For example, the County Courthouse complex was estimated to cost \$7.6 million, almost \$15 million below the 2007 figure. The reservoir was priced at \$40.5 million, maybe only 40% of today's price tag. The complete construction of all 99.87 of primary roads in the Town and County to brand new condition was priced at \$17.6 million, less than half the 2006 cost, perhaps one-quarter of 2009 cost. And the recreation center was budgeted almost 40 percent below 2007 estimates for the indoor facility.

Total impact fees (again, in 2006 dollars) to be collected between 2006 and 2020 were estimated to total:

Roads	\$7.3 million
Courthouse	\$3.2 million
Fire	\$3.9 million

Rec Center	\$4.3 million
Trails	\$2.3 million
Schools	\$1.4 million
Parks	\$1.8 million
Reservoir	\$6.4 million

Only the Town adopted the EPS plan in 2006. PAWSD rejected the plan immediately and the County has adopted one impact fee which it has yet to impose on a property.

Can the EPS report rejected in 2006 become the basis for agreement between the Town, County and PAWSD in 2008?

That question became the focus of a critical 90 minute discussion which might lead to County-wide cooperation on impact fees.

## **Greeting of the Minds, Part Two**

Glenn Walsh | 8/18/08

In [Part One](#), on Friday, I discussed last Wednesday's meeting between the Pagosa Area Water and Sanitation District, the Town of Pagosa Springs, and the Archuleta Board of County Commissioners. The ultimate goal was to reach a consensus on how to price area-wide impact fees. PAWSD has by far the highest impact fee for a single project, the 35,000 acre-foot Dry Gulch Reservoir — and the BoCC voted last month to publish a resolution stating their lack of support for any reservoir larger than 12,500 acre feet.

The three entities had originally seemed as if they were going to jointly embrace a 2006 impact fee study by Economic and Planning Systems (EPS) — but in the end, only the Town followed through on the fees as recommended by EPS.

Why did the Pagosa Area Water and Sanitation District immediately reject the calculations of the 2006 EPS Joint Impact Fee Analysis? Because PAWSD had changed its calculation of the reservoir project it intended to build at Dry Gulch.

PAWSD's original 2003 Appraisal Report had made a strong case for a 12,500 acre-foot reservoir at Dry Gulch, and EPS priced that facility over the 35,000 new water taps which that facility would serve. PAWSD's new designs were for a 35,000 acre-foot facility (present demand is about 1900 acre feet), plus all of the raw water lines, water treatment plants, treated water lines and treated water tanks that would serve a population of 160,000, and priced over the first 25% of those customers.

And for that big project, PAWSD needed big money. To put PAWSD ambitions in perspective, consider a few facts and figures. Under the EPS analysis, the total amount of impact fees over 15 years for every project in the Town and County totaled \$31 million dollars.

PAWSD passed its own impact fee for Dry Gulch in April 2006 which imagined the water district collecting over \$100 million dollars over the next fifteen years. And while PAWSD objected to EPS's methodology of assessing reservoir fees, it was happy to collect \$6.4 million in Town and County impact fees through its partner in Dry Gulch, the San Juan Water Conservancy District.

Had all of the impact fees, Town, County and PAWSD been adopted in 2006, and had the local Pagosa economy not stalled coincident with those fees (causation is still debated), total impact fees collected over the

next fifteen years would have totaled \$131 million.

The complete reconstruction of County and Town road systems, new public facilities (including a new jail), new fire stations, new recreation facilities, parks, trails, and schools would have received about \$24 million.

The Dry Gulch Project would have received \$107 million, or 82% of all public capital investment over the next 15 years. For a project which might not be built for 30 years (if present growth and water usage figures are recognized).

For a snapshot of how badly the finances for the \$150 million Dry Gulch project are, take a look at the projections of the Bernstein Master Plan below. Total impact fees for new residential and commercial growth within the PAWS district should total about \$3.2 million in 2008. Those fees are now projected to total \$120,000, or 4% of projections. Total reservoir fees for 2009-2010 are expected to be almost \$14 million...  
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	2008	2009	2010
CAPITAL INVESTMENT FEES (\$2500 WATER/EQR - \$1.25 SQ. FT. +	887,000	1,953,000	2,054,500
REVENUE BONDS (NET OF COSTS OF ISSUANCE)	1,500,000		
INTEREST EARNED FROM BONDS AND CIF AND WATER RESOURCE FUNDS	500,000	100,000	250,000
WATER RESOURCE FEE (\$7,000/EQR + INCREASES)	2,100,001	4,185,000	4,696,000
CONNECTION CHARGES	150,000	251,518	300,000
TOTAL NON-OPERATING REVENUES	8,224,570	6,577,997	7,276,435
TRANSFER OF CAPITAL INVESTMENT FEES TO CAPITAL PROJECTS	4,215,000	1,618,234	931,171
TRANSFER OF WATER RESOURCE FEES TO CAPITAL PROJECTS			

Will PAWSD collect even 2% of these fees over the next two years?

Of course, setting and then collecting impact fees based on 100 years of demand is an impossibility. If the Town were to assess its impact fees based upon the same methodology as PAWSD (95 years of cost assessed against 35 years of growth) it would apply impact fees of nearly \$25,000 for each residential unit and \$125,000 for a 4,000 square foot restaurant.

One can laugh at these figures (in sympathy with me or with derision) but consider some numbers that are not funny. Town and PAWSD impact fees on a new 4,000 square foot restaurant in June 2008 — not June 2100 — were \$196,380.

Last month, PAWSD took the most decisive action on impact fees to date, reducing its commercial impact fees by 75-85% for large commercial projects. The Town has raised its sewer fees on such projects by 20%.

There was broad agreement at last week's meeting that impact fees were affecting the local economy. Karen Wessels, the President of the PAWSD board, reported she had polled some clients to get current charges they are facing, and cited a total of \$23,000 for a 1500 square foot house. Wessels commented "It is incredible. We need to work together. That's the bottom line."

Commissioner Ronnie Zaday detailed impact fees for a 3,000 square foot home that total \$42,000. This total did not include recent PAWSD increases of water impact fees on large homes from \$10,000 to \$24,000.

BoCC Chair Bob Moomaw, the most consistent public advocate for moderate impact fees (many public figures fall into the all or nothing camps), lamented "Coming up with the magical number is the tough one."

Moomaw added, "It is impossible having the County using one set of numbers, the Town using another, and PAWSD using a third, plus it is expensive to go get these numbers"

Councilor Mark Weiler then gave a stark description of the numbers he is looking at for the Town's 2009 budget if the local economy does not rebound — "it is going to be wretched" — and a suggestion of how the impact fee could be gotten less expensively: Weiler will pay for the study, whatever the cost.

Weiler explained the “biggest concern has got to be the financial viability of the entire County.” Weiler then offered to pay more, pushing for a September report, whatever the premium EPS charges for putting the study on the fast track.

Wessels and Weiss reported that PAWSD was about to commission a reexamination of their impact fees which would take six months.

Weiler dropped his voice into a soft baritone and patiently explained his hurry. “I fear the status quo until we get the results and then it is already March. ... Do we go through another summer like this?”

But neither Wessels nor Weiss were going to be rushed. Wessels agreed to try to fast track a comprehensive impact fee recalculation, but made no promises. “We’ll talk to EPS and see what their time frame is and get their revised proposal. We will get ours through the agency we are looking at [BBC Research] . Then let’s get together, let’s communicate, let’s stay on the same page.”

Councilor Darrel Cotton was worried about the size of the new impact fees on that page. “Beyond the reality that we are in trouble is the reality of the numbers we have all asked for. ... We were going to build a rec center, pave all the roads in the County, were going to do everything. ... We are going to do the bare minimum to get by and EPS needs to know that is what we are looking for.”

Cotton summed up his concern about impact fees. “We hire experts to tell us what we need, but we don’t tell them what we can afford.”

In the end, an optimistic timeline was discussed but not formally agreed to; one which would have the new impact fee study completed by October. That would throw the new impact fee schedule into the last two weeks of the election of two County commissioners. For a set of reasons outside the scope of this article, the reader should expect that not to happen.

A monthly roundtable was set for the fourth Monday of each month. Encouragingly, the parties quickly agreed to start August 25th rather than waiting seven weeks for a late September meeting.

But how encouraged should one be that the Town, County and PAWSD can agree to a consolidated impact fee?

Regarding one half of the local market — commercial, industrial, multifamily and affordable housing — cooperation is quite likely to produce lower fees if the Town can catch up with PAWSD. PAWSD has cut their water and sewer impact fees for commercial users by 75% or more, while the Town has increased their sewer impact fees by 20% and may raise them another 25% when the recent increases in steel prices (195% in three weeks) are figured into the price of the long-delayed/new wastewater treatment plant.

Regarding the second half of the local construction market — single family residential — consider two points. First, where PAWSD is convinced their fees have affected the local economy they have acted decisively. But the PAWSD board and staff simply are not convinced that a \$7210 reservoir fee is affecting the single-family residential and second home construction markets. Indeed, at last Tuesday’s PAWSD meeting the board approved a new impact fee schedule which will increase reservoir and capital investment fees on large houses from \$10,000 to \$24,000.

Secondly, while the PAWSD reservoir fee of \$6343 in 2006 was based on a 35,000 acre-foot reservoir and very hard to justify using traditional impact fee methodology, costs of steel construction materials have more than tripled in less than two years. It is almost certain that a painstaking impact fee analysis which assigns a fair cost to each new tap will yield an impact fee much closer to PAWSD’s present fee of \$7210 than to the 2006 EPS

fee of \$1129.

If you think those two points add up to easy agreement on a reduction in residential water fees, there is a pedestrian bridge at the end of Hermosa Street Fred Schmidt may want to sell you.