

RESOLUTION NUMBER 08-101

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KETCHUM, IDAHO,
REVISING ANNEXATION FEES FOR RESIDENTIAL AND COMMERCIAL
ANNEXATIONS.**

WHEREAS, the City Council has found it necessary to establish annexation fees for residential and commercial annexations; and

WHEREAS, Ketchum used to charge by the acre (by acreage) and these new fees established will be by use (residential or commercial); and

WHEREAS, the City Council finds it necessary to establish annexation fees for residential and commercial annexations in order to recover all or part of the costs to conduct the necessary reviews, thereby ensuring the public health, safety and welfare; and

WHEREAS, the need to establish such fees is supported by the verbal testimony of the public and research performed by Lisa Horowitz and Rich Caplan in addition to the memo from Richard Caplan and Associates, attached hereto and incorporated herein as Exhibit A; and

WHEREAS, the annexation fee for residential annexation is established at \$2,538 per unit; and

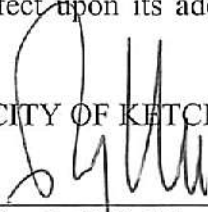
WHEREAS, the annexation fee for commercial annexation is established at \$7,555 per 1,000 square feet; and

WHEREAS, the requirements for a public hearing, pursuant to Idaho Code § 63-1311A, have been met.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Ketchum, Idaho, that new annexation fees for residential and commercial annexations be adopted.

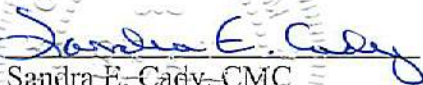
This Resolution will be in full force and effect upon its adoption this fifteenth (15th) day of September 2008.

CITY OF KETCHUM, IDAHO



Randy Hall, Mayor

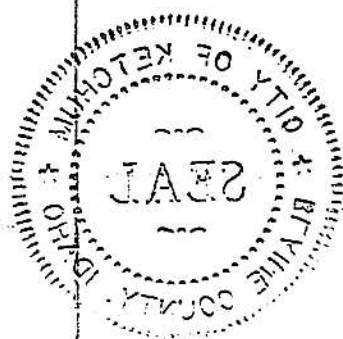
ATTEST:


Sandra E. Cady, CMC
City Treasurer/Clerk

I have the honor to acknowledge the receipt of your letter of the 14th inst. in relation to the above mentioned matter. I am sorry that I cannot give you a more definite answer at this time, but I am sure that you will understand the necessity of this delay. I will endeavor to give you a final answer as soon as possible.

Very truly yours,
 J. A. [Name]

[Handwritten signature or initials]



March 24, 2008

To: Mayor and City Council
CITY OF KETCHUM

From: Rich Caplan *RC*

Re: Ketchum Annexation Fee Study - Revised

EXECUTIVE SUMMARY AND RECOMMENDATION

RICHARD CAPLAN & ASSOCIATES was asked by the City of Ketchum to provide an analysis to calculate, update and recommend the city's annexation fee schedule. This report provides that analysis incorporating the projected residential and commercial development planned in potential annexations, those areas surrounding the city designated as the city's four areas of impact (Subdivision Chapter 16.12.020).

These recommendations are based on the premise that the City of Ketchum wants to ensure that future annexations do not reduce the quality or quantity of services the City is able to deliver to existing residents and property owners. In other words, annexation fees further allow the City to consider and mitigate any negative financial impacts. The components of these fees are not included in the city's development impact fee. The approach used involves identifying service areas not provided for in the development impact fee.

To perform this analysis, this study establishes current and future service units based on population and employment and recommends three alternative annexation fees based on proportional shares (service units) by residential unit and per 1,000 square foot of new commercial space. This information is used to allocate the fair share of municipal services and capital improvement plan costs, not already calculated and incorporated in the city's development impact fee, as well as incorporate the city's current capital assets.

The following tables in this study present the findings, analysis and recommendations for the City Council's consideration:

LIST OF TABLES

- Table 1: Benchmark Survey Cities Annexation Fees
- Table 2: Land Use and Population Estimates – Existing Residential
- Table 3: Land Use and Population Estimates – Existing Non-Residential

- Table 4: Infill Land Use and Population Estimates
- Table 5: Combined Service Units – Population and Employment
- Table 6: Apportionment of Current Capital Assets

- Table 7: Summary of Annexation Fee by Component
- Table 8: Apportionment of Capital Improvement Plan
- Table 9: Annexation Fee Alternatives
- Table 10: Sample Annexation Fee Implications for Proposed Warm Springs Ranch

This analysis considers the city's 2006 fiscal year audited budget and adopted 2007 – 2012 Capital Improvement Plan. Additionally, a benchmark survey of other resort cities annexation fees has been provided to illustrate how the City of Ketchum compares with other benchmark cities. The three components of assets, capital needs and operating service levels make up the annexation fee analysis and calculation.

The analysis of annexation fees includes a separation of the role of annexation fees from development impact fees. The impact of additional capital costs related to police, fire, streets and park growth are part of the city's development impact fee as provided for under Idaho state statute.

To support this objective, it is recommended that the city consider an annexation fee that maximizes the City's ability to capture resources through the annexation process. Using the following approach the annexation fee is calculated using three methods:

A) **"Buy-In" to the City** - Identifies and apportions existing land, capital and equipment assets that benefit the City as well as the increased populations from annexation. This method is sometimes called a "buy-in" or a "cost recovery method." This approach incorporates the current value of existing facilities and infrastructure as reported in the City of Ketchum's Basic Financial Statements for the year ended September 30, 2006 and apportions these to current and future users that benefit from them.

B) **Share of Projected Capital Needs** - Identifies and apportions planned capital improvements which have not been included in the calculation of the development impact fee but identified in the City's 2007 – 2012 Capital Improvement Plan. The calculation represents the annexation area's share of benefit in these projects.

C) **Annual Operations** – Maintains ongoing service levels that will be accelerated or increased by new development. This approach benchmarks the current municipal levels of services be maintained at no less than the prevailing levels. The cost of increased service levels are apportioned to future users in proportionate use.

The end product of this report is a range of four recommended annexation fees. The range offers the City Council the opportunity to consider. **Based on the city's comprehensive plan, future annexation is projected by these estimates:**

- A total of 1,348 additional residential units, including 315 existing units and an estimated 1,033 potential units would result in a total annexation fee ranging from \$1,187 to \$2,538 per residential unit depending on the number and/or combination of fair-share fees the City Council determines to be assigned towards annexation.
- Approximately 1,326,475 square feet of additional commercial development including 56,900 square feet of existing commercial development would result in a total annexation fee ranging from \$3,533 to \$7,555 per 1,000

square feet of development (or \$3.53 to \$7.55 per square foot), depending on the combination of fair-share components the Mayor and City Council determine to be assigned towards annexed commercial development.

These fees exclude any capital costs for the streets, parks and open spaces proposed within the annexations that a developer may dedicate, improve and/or maintain through a home owner's association and/or another non-municipal service arrangement.

ALTERNATIVE ANNEXATION FEE SCHEDULES

Percent of Total	Annexation Fee Component			TOTAL / MAXIMUM
	"Buy-in"	Capital Contribution	Operating Contribution	
	46.8%	38.6%	14.6%	100%
Residential Fee	\$1,187/ unit	\$979/ unit	\$371/ unit	\$2,538/ unit
Commercial Fee	\$3,533/1,000 sq. ft.	\$2,917/1,000 sq. ft.	\$1,105/1,000 sq. ft.	\$7,555/1,000 sq. ft.
<u>Residential Fee per unit:</u>				
Alternative A	Included	<i>Not included</i>	<i>Not included</i>	\$1,187
Alternative B	Included	<i>Not Included</i>	Included	\$1,588
Alternative C	Included	Included	<i>Not Included</i>	\$2,166
Alternative D	Included	Included	Included	\$2,538
<u>Commercial Fee per 1,000 square feet:</u>				
Alternative A	Included	<i>Not included</i>	<i>Not included</i>	\$3,533
Alternative B	Included	<i>Not Included</i>	Included	\$4,638
Alternative C	Included	Included	<i>Not Included</i>	\$6,450
Alternative D	Included	Included	Included	\$7,555

The City Council may determine that a portion of these fees, in particular the operating contribution component (B), presented as Alternative C, which represents 14.6% of the fee total, may be reduced or waived in the event that a Fiscal Impact Analysis for a particular annexation request concludes that there is net positive fiscal benefit to the City of Ketchum from an existing developed area or a proposed project in the area intended to be annexed.

The city's current annexation fee is a minimum of \$500 for an annexation under one acre (regardless of the land use) and a maximum of \$1,000 plus 50 per acre and the cost of mailings and postage. A sample of these fees if adopted and applied to the proposed Warm Springs Ranch Resort project, as currently proposed, is

presented in Table 10 in this study. Under the city's existing annexation fee schedule, the annexation is calculated to be \$4,850 for the 76.77 acre development.

I. Benchmark Survey

A survey was performed to compare Ketchum's current annexation fee schedule with that of other mountain resort communities in four western states that have had recent and planned annexation. The City of Boise was also included in the survey. Every city includes at least one variable in their fee schedule tied to one or more of the following factors:

- Amount of city staff hours for reviewing the request,
- Amount of acreage and/or amount of development, and
- Cost of outside studies (environmental and/or fiscal impact).

The City of Ketchum's current annexation fee is lower than all of the five other cities in the survey. The fees range from a minimum of \$658 to over \$10,000. The average fees range from six to seven times the fee currently charged by Ketchum. The five cities and the results of this survey are presented in Table 1.

TABLE 1: BENCHMARK SURVEY CITIES ANNEXATION FEES

City	Minimum Fee	Maximum Fee	Comments / Other
Aspen, CO	\$2,620 Deposit for staff + cost of fiscal impact analysis		Final fee based on actual staff time required
Jackson, WY	\$5,000	\$8,000	Tied to special district fee schedule and amount of staff hours
Park City, UT	\$2,000 + cost of Fiscal Impact Study	\$10,000 + cost of Fiscal Impact Study	Tied to amount of actual staff time and amount of acreage; if amount of deposit is depleted, additional equivalent deposit required; outstanding balance returned upon completion of annexation
South Lake Tahoe, CA	\$8,000 + cost of Environmental Impact Report		Plus actual cost of any consultant(s)
Boise, ID	\$658	\$1,991	Amount tied to acreage
5 City Average	\$3,655	\$6,122	
City of Ketchum	\$500 (under 1 acre)	\$1,000 + \$50 per acre	Plus cost of postage and mailings

II. LAND USE AND POPULATION ESTIMATES

Current Population and Land Use

To undertake an analysis of current census data was updated using building permit data through 2006. The approach develops a population figure based on actual growth in construction of housing and commercial development. This serves as a base to assign values based on population, square footage of commercial uses and employment. The results are provided below in Tables 2 and 3.

Residential Service Population

The number of occupied housing units and the size of households combine to create residential service populations. Table 2 summarizes 2006 housing units and the city's permanent, full time population.

TABLE 2: KETCHUM LAND USE AND POPULATION – EXISTING RESIDENTIAL

Residential Location	Number of Housing Units	Actual Population	Average Persons per Unit
City	3,124	3,226	1.03
<u>Areas of Impact</u>	<u>315</u>	<u>325</u>	<u>1.03</u>
Total	3,439	3,551	1.03

Non-Residential/Commercial Service Population

In addition to residential development, commercial and industrial uses create an employee service base. The Blaine County Assessor's Records indicate 1,877,400 square feet of existing commercial development in Ketchum. The estimate of 5,762 employees in Ketchum is based on data reported by the U.S. Census Bureau of Economic Analysis covering all businesses located within the 83340 ZIP Code area, an area which includes the city limits and the areas of impact of Ketchum.

To determine the proportional share of costs to non-residential costs, it is important to not double count employees and residents. Ketchum's employment data reveals that many non-Ketchum residents commute into the city for employment. Therefore, the number of Ketchum residents is applied to the non-residential service population and resulting employment service unit component has been reduced by 2,025 to create an unduplicated service population for commercial/non-residential use. The non-residential land use results in an employee service population of 3,737.

TABLE 3: 2006 LAND USE AND POPULATION ESTIMATES- EXISTING NON-RESIDENTIAL

Commercial Location	Est. Square Feet	Average Employee Per Sq. Foot	Estimated Employees	Service Population/ Percent
City	1,877,400	335	5,592	
Less: Ketchum residents in <u>work force</u>			(2,025)	
NET Employees			3,567	95.5%
<u>Area of Impact</u>	<u>56,900</u>	<u>335</u>	<u>170</u>	<u>4.5%</u>
TOTAL	1,934,400		3,737	100%

Future Population Estimates

In addition to current population, a future population estimate is needed to determine the relative share of cost burden that may be assigned to annexation. Future populations consist of two types of future growth:

- 1) Areas planned to be annexed (1,348 units), and
- 2) Growth from "infill" development (4,394 units).

The infill component of the equation is the residential land available for development without annexation. An estimated infill population was determined by a previous study completed by city staff and is based on the City reaching a population of 12,240 upon full buildout. Based on current zoning, a total of 6,057 units are considered developable. Therefore, the estimated service population and from future commercial and residential infill development is summarized below in Table 4.

TABLE 4: INFILL LAND USE AND ANNEXATION POPULATION ESTIMATES

Land Use	Estimated Dwelling Units	Persons Per Unit	Est. Population / Services Units	Percent of Total
Infill Residential:	4,394	1.03	4,789	72.5%
<u>Zone of Impact Area:</u>				
Existing	315			
<u>Buildout</u>	<u>1,033</u>	> 1.03	1,469	27.5%
Sub-Total	1,348			
TOTAL	6,057		6,602	100%

These portions of population growth for the areas of impact are a component of the annexation fee. The model assumes that this growth will become a component of the current population at some time in the future.

Planned Annexations

The focus of this study is the future population growth and employment that will come from areas of impact. Table 5 projects the service population estimates based on Ketchum potentially annexing 315 existing and 1,033 future housing units and 56,900 square feet of existing and 1,326,475 square feet of future commercial development.

The result of the analysis is a combined projected service population that the City's General Fund and capital improvement plan. Current and future annexation populations and employees are each provided a relative proportional share as illustrated in Table 5. The estimated share of the Ketchum annexation is a combined total of 21.7 percent of the city's existing and future total service units.

TABLE 5: 2006 COMBINED SERVICE UNITS – POPULATION AND EMPLOYMENT

Land Use	Current Units; Square Feet	Annexations / Areas of Impact	Total Service Units	Percent of Total Service Units
<i>City of Ketchum:</i>				
Existing Residential	3,124 units	- -	3,226	> 30.6%
Future in-fill Residential	4,394 units	- -	4,526	
Existing Commercial	1,877,400 sq. ft.	- -	3,567	>47.7%
Future in-fill Commercial	2,856,725 sq. ft.	- -	8,527	
SUB-TOTAL City limits			19,846	78.3%
<i>Area of Impact/ Annexation:</i>				
Existing Residential	315 units	- -	325	> 5.5%
Future Residential	1,033 units	- -	1,064	
Existing Commercial	- -	56,900 sq. ft.	170	> 16.2%
Future Commercial	- -	1,326,475 sq. ft.	3,950	
SUB-TOTAL Area of Impact			5,509	21.7%
Total Service Population			25,355	100%

Table Notes:

- a. Tourists are not included in the calculations but the built commercial space (i.e. beds) they occupy is calculated.
- b. Assumes the same percentage of future residents will be employed in Ketchum as currently exists.

III. SHARE OF CAPITAL ASSETS

In addition to operational costs, capital investment has been made in the City's infrastructure that can be used by both current and future residents. These assets already exist and are not increased based on a development's incremental new impact on the city. They will be used and will benefit the new development but have been paid for by existing Ketchum residents. New development will create a greater burden on these assets and reduce their useful life. Current asset value is not an element considered in development impact fees.

Fortunately, recent changes in generally accepted accounting standards (GASB Rule 34) require that cities perform asset inventories and identify the value of current assets. The values are based on the purchase price less the depreciated portion to report the current value of the City's assets. Ketchum's Basic Financial Statements prepared for the year ending September 30, 2006 provide a summary of the asset values. The City prepares Financial Statements every year. They are prepared and audited by an outside third party and are, therefore, a fair and accurate statement of assets and value.

The value of current assets and the apportionment of those assets to current and annexation areas. Current assets, less their depreciated value not including city land, have a current value of \$30,118,114 as reported in the City of Ketchum's Basic Financial Statements for the year ending September 30, 2006. The assets include property, improvements and large equipment for all of the City's departments.

TABLE 6: APPORTIONMENT OF CURRENT CAPITAL ASSETS

Total Capital Assets	Allocated to Existing City	Allocated to Areas of Impact
Percent: 100%	78.3%	21.7%
Total: \$30,118,114	\$23,582,483	\$6,535,631

IV. SHARE OF CAPITAL IMPROVEMENTS

Annexation fees are a one-time payment to fund system improvements that will benefit or accommodate the areas of impact. The fee excludes off-site improvements required by the developer to upgrade streets, bike paths, water and wastewater improvements and related obligations that are directly related to providing appropriate levels of infrastructure to the project.

The annexation fees are proportionate to the demands created by the new development or proportional to the citywide benefits that the area(s) share with existing City residents. This study has designed the annexation fee to capture the new area's share of existing assets and capital improvements that it will benefit from.

The proposed annexation fee will contribute a proportionate share as well as making a one-time contribution to support services. Additionally, new development will be required to "buy-in" to the existing infrastructure paid for by current residents that will benefit the new residents. Therefore, the amount of the annexation fee reflects:

- A. The cost of the annexed area's share of current capital asset value as reported in the City of Ketchum Independent Auditor's Reports for the year ended September 30, 2006;
- B. The capital investments as described in the adopted capital improvement plan budget (\$32,107,505); and
- C. A fair share percentage (See Table 7) of the 2006 general fund operating budget for 1 year. These amounts exclude water and sewer operations, maintenance and facility capital improvements.

TABLE 7: SUMMARY OF RESIDENTIAL ANNEXATION FEE BY COMPONENT

Annexation Fee Component	% of Total	TOTAL	Ketchum Annexation (x 21.7%)	Per Service Unit (5,509 service units)
A. Current Capital Assets	46.8%	\$30,118,114	\$6,535,631	
B. Capital Improvement Plan	38.6%	\$24,861,408	\$5,394,926	
C. FY 2006 General Fund Operating Expenditures	14.8%	\$9,418,520	\$2,043,819	
Total:	100%	<u>\$64,398,042</u>	<u>\$13,974,375</u>	<u>\$2,537</u>
Service Unit Allocation:				
Residential x 25.2%				
/ 1,389 units				
Commercial x 74.8%			\$3,523,399	\$2,537
Per 1,000 sq. ft.				
(@ 1,383,375 sq. ft.)			\$10,450,976	\$7,555

The combined estimated fee per service unit is \$2,537. Assuming 1,383,375 square feet, the combined total fee per 1,000 square feet would be \$7,555.

V. SHARE OF CAPITAL IMPROVEMENTS PLAN

Future capital facilities reported in the attachments to this study include: public safety, administration and public works facilities, equipment replacement, and items that represent the replacement of current equipment as well as projects that will enhance the entire community. The current C.I.P. relies on the best information available at the time of annexation. As in the capital asset analysis, the approach is to apportion the projects not eligible to be included in the development impact fee calculation that will benefit the areas of impact as they would benefit the City as a whole. The value to the annexed areas is apportioned in the same manner that the asset values are apportioned.

Table 8 reports the value of capital projects and equipment purchases as reported in the City's 2007 – 2012 Capital Improvement Plan. The total of the planned capital projects is \$84,912,285, including water and sewer projects. Since these capital projects will benefit all City residents, a proportional share has been identified for current and annexed areas by land use type. The total has been reduced by removing water and sewer plans that will be addressed through methods other than the annexation fee. The capital plan has been apportioned to those projects that will directly serve the residents of the annexed areas resulting in an adjusted capital plan of \$24,861,408.

In addition to capital related to the General Fund, the annexed area will require additional water and waste water capacity. These costs will be recovered, in part, through connection fees and are not apportioned to the annexation fee.

TABLE 8: APPORTIONMENT OF CAPITAL IMPROVEMENT PLAN COSTS

Service Area	TOTAL Ketchum 2007 – 2012 CIP	2007 – 2012 Development Impact Fee Allocated Capital Program Costs	2007 – 2012 Capital Program Costs NOT Included in DIF Calculation
Parks	\$ 3,430,000	\$ 1,729,595	\$ 1,700,405
Streets and Traffic	\$ 6,918,382	\$ 6,900,841	\$ 17,541
Fire Protection	\$11,246,250	\$ 1,225,340	\$10,020,910
Law Enforcement	\$10,777,500	\$ 1,202,948	\$ 9,574,552
All Other: Parking, Transportation, Drainage, Vehicles (@)	\$ 3,548,000	\$0	\$ 3,548,000
TOTAL:	\$35,902,132	\$11,058,725	\$24,861,408

@ = All Other excludes affordable housing, urban renewal agency, water and wastewater projects to be covered by other fees.

Conclusion and Recommended Fee Alternatives

As reviewed above, the total fee is a composite of the annexation area's share of current capital assets (buy-in), planned future capital (excluding projects included in the development impact fee and new capacity for water and waste water) and a one-year contribution to annual operations. This creates several fee components apportioned by land use type arriving at a unit cost for the current service population by land use type.

Table 9 combines these three components and illustrates alternative fees for residential units and per 1,000 square feet of light industrial and/or commercial development. No annexation fee may be expected to be charged for the deed restricted residential units in an effort to keep the sales price and/or rental rates of these units more affordable.

Table 9: Annexation Fee Alternatives

Alternative	% of Total	Residential (per unit)	Commercial (per 1,000 square feet)
A. Buy-in only	46.8%	\$ 1,187	\$ 3,533
B. Buy-in and Operating Contribution	14.6%	\$ 1,588	\$ 4,638
C. Buy-in and Share of Capital Needs	38.6%	\$ 2,166	\$ 6,450
D. All Three Components	100%	\$ 2,538	\$ 7,555

The City Council may determine that a portion of these fees, in particular the operating contribution component (B), which represents 14.6% of the fee total, may be reduced or waived in the event that a Fiscal Impact Analysis for a particular annexation request concludes that there is net positive fiscal benefit to the City of Ketchum from an existing or planned project in the area intended to be annexed.

The City is currently considering at least one annexation, the Warm Springs Ranch Resort. The proposed annexation fee schedule and how it compares to the existing annexation fee schedule is presented in the following Table 10.

Table 10: Sample Annexation Fee Implications for Proposed Warm Springs Ranch Resort

WSRR Component to be Annexed	Square Feet / Units	Alternative A	Alternative B	Alternative C	Alternative D	Existing Fee Schedule
Hotel events center	3,500 sq. ft.	\$12,366	\$17,233	\$22,575	\$26,443	
Residential	N / A	\$0	\$0	\$0	\$0	
TOTAL		\$12,366	\$17,233	\$22,575	\$26,443	\$4,850

Upon determination of a fee schedule and in light of the pending Warm Springs Ranch Resort annexation, the Mayor and City Council should determine the effective date of a new fee schedule