

Chamber, developers say impact fees driving businesses away from Bozeman, but city says it would have to raise taxes without the fees

By AMANDA RICKER, Chronicle Staff Writer | Posted: Sunday, July 31, 2011 12:15 am

Faced with rigorous and expensive city development standards, Kohl's department store executives were getting ready to hop a plane last year and abandon plans to open a store here.

The city wanted hundreds of thousands of dollars in impact fees, reconstruction of a nearby intersection and changes to the look of the store being proposed.

Executives figured they could find a cheaper, easier place to do business.

"Kohl's was leaving," said Daryl Schliem, Bozeman Area Chamber of Commerce president and CEO.

Schliem said he asked Kohl's executives to stay for one last meeting with city officials and the developer. Together, they hammered out a deal. Kohl's is preparing to open this fall.

Impact fees, charged on new construction to pay for growth, were one of the impediments stopping Kohl's.

Local business representatives and commercial realtors said the fees are a major factor preventing companies from coming to Bozeman.

Schliem said electronics retailer Best Buy and Qdoba Mexican grill decided not to open stores in Bozeman, citing the fees as one reason. Qdoba built in Billings instead, he said.

"We have heard from the developers point blank that the impact fees are too high" in Bozeman, Schliem said. They claim it's cheaper to build elsewhere, he said.

But city officials and land-use planners said Bozeman needs impact fees. They said if Bozeman didn't collect the fees, residents would have to pay more in property taxes and water and sewer bills.

In the past five years, the city has dedicated more than \$33 million in impact fees toward a new fire station and expanding the city's water and sewer treatment plants.

"Impact fees are an important tool to make sure we're a functioning city," said Randy Carpenter of the Sonoran Institute, a Bozeman nonprofit that specializes in managing growth. "There simply is no substitute."

Paying for growth

Cities charge impact fees to prevent existing residents from paying for population growth.

"Cities throughout the country understand that the equitable thing to do is to assign the cost to that development which necessitates the construction" of new infrastructure, Carpenter said. "We wouldn't need to build a new fire station, for instance, if we didn't have new growth."

Impact fees match the cost to the demand, rather than spreading the cost citywide, Assistant Planning Director Chris Saunders said.

Property taxes aren't as targeted. They go into the general fund where the commission has the discretion to spend them on parks, police or other services.

"With impact fees you have direct ties between the dollar charged and the type of improvement it goes toward," Saunders said. "It's much more tightly controlled on where the money comes from and how it's going to be used."

Saunders said it's hard to believe Best Buy shelved its application for a Bozeman store due to impact fees because the company has applied to build a store on North 19th Avenue more than once. The company knew what the fees were the first time, he said. If it didn't like them, why would they have come back?

Both times, the company decided not to open in Bozeman.

"The number one thing with them was impact fees," Schliem said.

The city of Bozeman wanted Best Buy to pay \$280,000 in impact fees, he said.

"They thought that was higher than the rest of the places in Montana," Schliem said.

Best Buy did not return a call for comment.

Impact fees in other cities

Impact fees are different in every city, based on growth rates and infrastructure needs. And the fees are targeted for each building, taking into account everything from the number of bathrooms to the traffic the building will generate.

Stores built in open green spaces, requiring more streets, underground pipes and other infrastructure, cost more.

Bozeman charges impact fees to cover the cost of roads, water, sewer and fire protection.

For the average single family home, impact fees cost \$11,516.

In Missoula, it costs \$3,638 in impact fees for the average home.

Missoula charges for fire, police, roads, parks and "community services" - a catch-all category -- in addition to levying a sewer development fee, Missoula Finance Director Brentt Ramharter said.

In Billings, it costs \$3,863 in impact fees for the average home. But that's only for water and sewer, engineer Joe Sheridan said. Billings does not have road impact fees. Instead, the city charges all residents an arterial construction fee and relies on state and federal grant money.

Missoula and Billings are able to charge less than Bozeman in impact fees because they get more federal funding due to their population size, Saunders said.

"We don't get those dollars because we're not that big," Saunders said.

No impact fees in Gallatin County

Some companies and home developers simply choose to build just outside Bozeman city limits rather than adhere to a long list of city development standards.

Gallatin County doesn't charge impact fees.

Take two Bozeman car dealerships as an example of the difference in impact fee costs.

Billion Auto Group built within city limits at Huffine Lane and Cottonwood Road. Developers paid \$355,313 in impact fees.

Meanwhile, Ressler Motors built a dealership just a few blocks west down Huffine Lane on Gallatin County land. Developers paid a connection fee to the Rae Sewer District but not impact fees.

Some of Bozeman's largest companies are located outside the city, including RightNow Technologies and Zoot Enterprises.

Chris Nelson, founder of Zoot, said their decision to build outside Bozeman was because city development standards were too strict and wouldn't allow them to build quickly.

Greg Gianforte, CEO of RightNow, couldn't be reached for comment.

'Tough place to do business'

Mike McKenna chose to build in Bozeman because he wanted the busy location. But he said he has to pass on the cost of impact fees to his tenants.

McKenna built South Towne Square, which houses Sola Café and other businesses at the corner of Kagy Boulevard and Third Avenue. He paid \$185,231 in impact fees.

"It's a lot of money," McKenna said. "In this kind of a market, it just really makes it difficult to compete. It's expensive to build anyway. The cost of building - the materials - really hasn't gone down, even with the recession."

Mike Elliott, managing principal for the commercial real estate company Grubb and Ellis, said businesses are going to Boise, Idaho, Spokane, Wash., and Denver rather than building in Bozeman.

"Bozeman is a very difficult place to be a developer," Elliott said "They'd love to be in Bozeman because of the lifestyle, but at what cost?"

In the past, the lure of Bozeman's population growth was enough to overcome the high cost to build, commercial realtor Dennis Hardin said. But today that's changed.

"If (businesses) can build for less somewhere else and get the same or better return, they're going to do that," Hardin said. "Not many feel compelled to come to Bozeman."

Developers said it costs 20 percent more to build in Bozeman than it would anywhere else, Hardin said.

"I hear all the time that Bozeman is a tough place to do business," he said.

'Hard to go back now'

Historically, infrastructure improvements were paid for with user fees and taxes, said David Graham, a general contractor and chairman of the Southwest Montana Building Industry Association.

He said he believes impact fees are a politically viable way for cities to raise more money and use property taxes for other things.

"The problem that we have now is that it's entrenched into the spending structure of the city, so how we go back from that is a tough issue," Graham said.

People don't realize there's an extra \$12,000 tacked onto the price of their home because of impact fees, Graham said.

"Developers are building out in Four Corners instead," he said.

He cited the Middle Creek Parklands neighborhood near Cobb Hill Road as an example.

"There's a fair amount of building going on out there and has been over the past year," Graham said.

There's no question that impact fees cause developers to go outside of cities to build, he said.

When Belgrade introduced impact fees in 2008, Graham said only one new home was built in the city the following year.

"Impact fees have provided incentives to builders and developers to go outside the city limits," Graham said.

"The question for me is, 'Do cities want more growth?'" he said. "If they do, I would think that impact fees would be a good place to start - with a reduction ... There's no way that they're going to go away."

A break on the fees might kick-start building that was going to go elsewhere, developers said. They've suggested ideas ranging from a five-year hiatus to deferment of the fees based on how many jobs a new business would create.

"Growth brings taxes, and taxes help the tax base, and the tax base as it continues to grow helps to pay bills for everything," Hardin said.

Raise fees elsewhere

Under the 2012 budget the city is currently proposing, taxes and fees would increase by more than \$70 for the average homeowner.

If the city didn't collect as much in impact fees, City Manager Chris Kukulski said it would have had to raise taxes and fees elsewhere.

"(Impact fees) are a critical financial tool to help pay for the expansion of our infrastructure," Kukulski said.

Finance Director Anna Rosenberry said the city has used or is using impact fees for the following projects:

- *\$3.2 million for the city's third fire station.

- *\$17 million for sewer treatment plant expansion.

- *\$13.5 million for water treatment plant expansion.

Property taxes cover basic municipal services such as the library, said Carpenter of the Sonoran Institute.

"But when it comes to those big ticket items - a new fire station, new water treatment plant - we simply could not build those necessary things without either impact fees, or huge increases in property taxes, or in the rates that we charge, for instance, customers for water," Carpenter said. "So, that's the choice we have."

Every three years, Bozeman hires an outside consultant to review its impact fees and calculate appropriate amounts. A committee made up of various community interests, including the development industry and citizens at large, recommends to the Bozeman City Commission whether to adopt the new fees.

The city is in the process of studying its fees now.

The last time consultants studied Bozeman's impact fees, the local committee recommended instituting the full amount.

The commission decided against it. For road impact fees, the city only charges 60 percent of the amount proposed.

"We do not charge anywhere near - anywhere near - the full cost of the impacts that new development has," Carpenter said. "I think that people forget that."

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