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HOME BUILDERS ASSOCIATION
GREATER AUSTIN

Late Backup

December 20, 2012

Teresa Lutes, P.E.
Managing Engineer
Systems Planning Division
Water Resources Management
625 E. 10th Street Suite 700
Austin, Texas 78701

Dear Teresa,

The Home Builders Association (HBA) of Greater Austin represents the home building industry in the south central Texas region. In our five county metropolitan area, member firms construct ninety-five percent of homes. As a result, we have a keen interest in the proposed water and wastewater impact fees by the Austin Water Utility (AWU). The purpose of this letter is to convey, as requested by in our December 14, meeting, a comprehensive listing of the HBA's concerns.

Please preface any comments with the understanding on our part that the determination of any incentives using impact fees is a policy decision of the City of Austin City Council and as such is not addressed by you or in these notes. Generally, the position of the HBA is that if the City of Austin wants to direct growth or construction methods (visitability, green building, affordability), that should be done through incentives rather than mandates. It is acknowledged by us that such decisions are ultimately born out in rates.

Calculation of Credits

In its calculation of credits, AWU changed its methodology this year from the blanket 50% allowed under state law to an exact calculation of the credits allowed under state law. One of the areas of disagreement by the HBA is whether or not "times coverage" is a proper item to be credited to the impact fee payer.

First, here is an explanation of the HBA perspective, on behalf of new owners. The concept of an impact fee is for "growth to pay for itself". The converse to that is new growth should not have to pay for itself and existing infrastructure needed for current residents. It is fundamentally unfair to charge the new homeowner twice. When bonds for the current infrastructure were sold, AWU was required to maintain a "times coverage" to ensure that proper reserves and maintenance capacity was maintained. The HBA proposed that such mandatory reserves and maintenance should also be credited.

The relevant section of the statutes is in Chapter 395, Section 395.014 of the Local Government Code. The statute states the capital improvements plan shall include:

> (A) a credit for the portion of ad valorem tax and utility service revenues generated by new service units during the program period that is used for the payment of improvements, including the payment of debt, that are included in the capital improvements plan;

Our differences come on how the above referenced section is interpreted. AWU interprets that the credits are ***only*** on the tax and service revenues for improvements in the capital improvements plan. The HBA interprets the statute as saying that all tax and service revenues are include and that includes capital improvements debt.

The reasoning behind our logic and methodology is that at the time the statue was crafted, representatives accepted that if a full impact fee was collected, the respective utility would receive all of the internal water distribution and sewer collection system, plus the proportionate share of the off-site improvements (e.g. plant, interceptor, transmission, storage). That being the case, it would not be "fair" to receive that massive capital investment, plus the impact fee, and then have to pay for the rest of the system investment and maintenance over the same ten year period.

Calculation of Interest

The study uses an interest rate of 5.25%:

> H. Interest cost. The law allows interest cost to be added into the cost of a project if the impact fee will be used to repay both principal and interest. The amount of debt service assigned to each project was calculated by the Utility using the following assumptions: all bonds for the selected impact fee capital improvements projects were sold at the same time, an interest rate of 5.5% was assumed and the term of the bonds was thirty years. The amount of interest cost is indicated in thousands of dollars.

For the last bond issue by AWU, the highest initial yield was 3.070%. The median yield rate was in the 2% range. This leave open the question, "Why the difference, which significantly affects the total project cost?"

Application of Impact Fee Revenue

When a home tap fee is paid, the AWU obtains immediate use of the funds. However, it is not clear that the funds are being directly applied to the capital project or debt reduction. In either case, the capital cost of projects is being reduced. While it is not directly referenced in the statute, we would suggest that actual interest costs are overstated by not applying credits for collection of revenue as it is received.

Business Model

It is clear from the presentation by AWU that any decisions on regional or affordability incentives are policy decisions to be made by the City Council. However, the HBA would offer that there are AWU business decisions that would benefit from AWU advice or input. The business decision is, "What amount of impact fee is large enough that it drives customers to other locations and what amount of reduction can be accommodated in the rates?" In economic terms, "What is the elasticity of demand on Impact Fees?" To get that substantially wrong could mean that growth projections are too aggressive and shifting demand would leave capital projects under funded, with consequential increased carrying cost of the capital plan.

Conclusion

Thank you for the opportunity to comment. AWU has a long history of conservative and unassailable calculation methodology. Please take these comments as suggestions and supportive of that spirit and our intent to be helpful partners.

Sincerely,

Kathey Comer

Kathey Comer
Executive VP

Harry S

Harry Savio, CAE
Public Policy VP