



Demonstrated Need Technical Memo

To: J. Scott Herring, P.E.
Public Works Director
Hernando County, Florida

From: Peter Napoli, Managing Consultant

Stantec Consulting Services Inc.

Date: April 18, 2024

Reference: Demonstrated Need Analysis Due to Extraordinary Circumstances

Introduction

Stantec Consulting Services Inc. (Stantec) was engaged to perform a demonstrated need study (Study) to evaluate Hernando County's (County) demonstrated need in terms of the County's necessary costs to maintain the level of service related to growth and the funding support provided by the current adopted impact fees. The County recently completed impact fee studies performed by Tindale Oliver (now part of Benesch) in 2022 and these studies supported varying levels of proposed increases to the existing impact fee schedule. However, the County Commission did not adopt any changes at the time the studies were completed. As the updated impact fee schedules calculated by Tindale Oliver in the recent impact fee studies exceed the limitations outlined in the Florida Impact Fee Act (as codified in **State of Florida's Laws, Chapter 2021-63**) the County engaged Stantec to perform a demonstrated need analysis consistent with the requirements of the Florida Impact Fee Act. It is important to note that, Stantec will not be assessing or verifying the underlying methodology or calculations of the County's existing impact fee studies completed by Tindale Oliver as part of this Study.

The County commissioned a demonstrated need analysis to conservatively adhere to the requirements of the Florida Impact Fee Act and to highlight the key drivers necessitating the need for increases in the impact fees to stakeholders. This analysis found extraordinary circumstances that support the need to implement increases to the County's Road, fire, EMS, public buildings, law enforcement, libraries, parks & recreation, and correctional and educational facilities impact fees that exceed the Florida Impact Fee Act phase-in limitations. The results of the demonstrated need analysis are presented herein.

Florida Impact Fee Increase Limitations

In 2021, the State of Florida's Laws, Chapter 2021-63, amended the Florida Impact Fee Act including the addition of a limitation on annual impact fee increases. More specifically the approved limitations are as follows:

- 1) An increase to a current impact fee rate of not more than 25 percent of the current rate must be implemented in two equal annual increments beginning with the date on which the increase fee is adopted.

Reference: Demonstrated Need Analysis

- 2) An increase to a current impact fee rate which exceeds 25 percent but is not more than 50 percent of the current rate must be implemented in four equal installments beginning with the date the increased fee is adopted.
- 3) An impact fee increase may not exceed 50 percent of the current impact fee rate.
- 4) An impact fee may not be increased more than once every 4 years.
- 5) An impact fee may not be increased retroactively for a previous or current fiscal year or calendar year.
- 6) A local government, school district, or special district may increase an impact fee rate beyond the phase-in limitations listed above under 1), 2), 3), and 4) provided the following criteria are met:
 - a. A demonstrated need study has been completed within the 12 months prior to the adoption of the proposed impact fee increase, expressly demonstrating the extraordinary circumstances necessitating the need to exceed the phase-in limitations.
 - b. The local government jurisdiction has held not less than two publicly noticed workshops dedicated to the extraordinary circumstances necessitating the need to exceed the phase-in limitations.
 - c. The impact fee increase ordinance is approved by at least a two-thirds vote of the governing body.

This analysis identified the following extraordinary circumstances demonstrating the need for Hernando County to adopt increases to its impact fees that exceed the phase-in limitations:

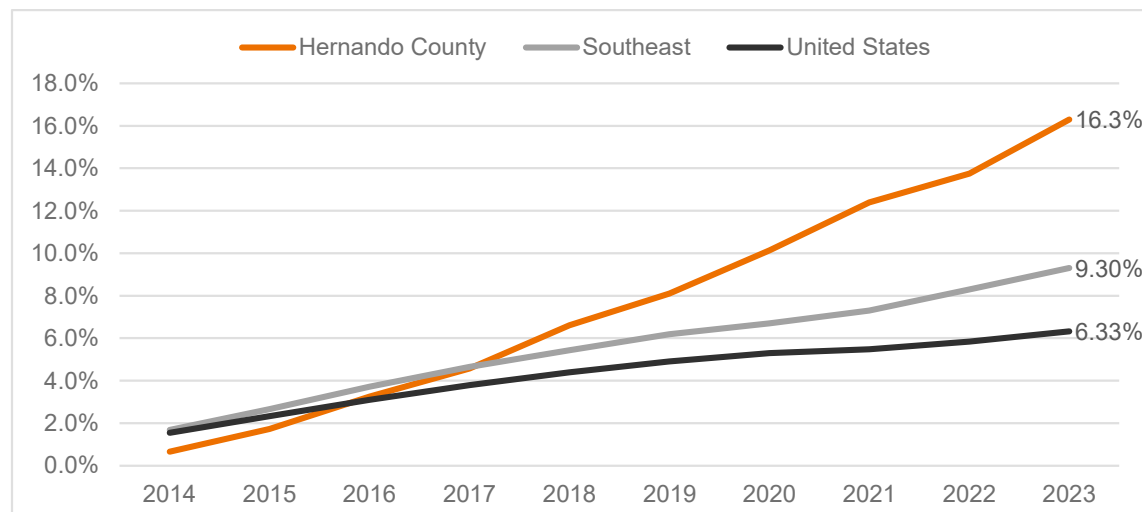
- 1) Recent population and customer growth rates exceed historical norms which requires urgent expansion of facilities to serve growth and maintain existing level of service.
- 2) The County's existing impact fees have been adopted at various points since 1986 to assist the County in providing adequate facilities for expected growth. The impact fee documentation has been updated multiple times, with the most recent studies occurring from 2019 through 2022 by Tindale Oliver. However, based on the Hernando County Board of County Commission's policy decision to retain the current impact fee levels, the County's fees have not been updated since 2012 and no longer reflect full cost recovery even if assuming relatively modest annual inflation assumptions.
- 3) Recent extraordinary inflationary pressures have significantly increased the cost of capital improvements, which indicate that the cost of expanding facilities for growth must be adjusted to current levels such that growth can more fairly "pay its own way".
- 4) Without implementation of fees at full-cost recovery, the County faces continued impact fee revenue losses which are projected to place further borrowing pressure on the County. As such, a higher percentage of the cost burden to serve growth will be borne by existing taxpayers and will potentially negatively impact the County's ability to construct facilities to serve new development.

Reference: Demonstrated Need Analysis

Population Growth

From 2014 to 2023 the County experienced population growth that exceeded regional and national averages. During that time period, the County's population has increased by 16.3%¹ compared to 9.3%² growth in the Southeast region and 6.33% in the United States. Additionally, before the current population boom, from 2004 to 2013, the County experienced a 17.4% increase in population, compared to 9.3% for neighboring Citrus County and 10.8% for the State of Florida as a whole. Sustained future growth in Hernando County of 14.3%³ is projected by the University of Florida's Bureau of Economic and Business Research (BEBR) during the time period of 2023 to 2035. These sustained levels of significant population growth and projected future growth are beyond regional, and national trends and underscores the County's need to invest in its infrastructure to accommodate growth. Population growth has been recognized as being so significant that in 2022 the Board of County Commissioners agreed to add four additional staffing positions and the reorganization of the county government structure to address growth related pressures.

Figure 1 – Population Growth (2013 – 2022)



Historical Impact Fee Studies

The County's impact fees have been implemented at various times since 1986. Seven of the County's current impact fees; Fire, EMS, Public Buildings, Jail, Law, Libraries, and Parks, reflect a fee schedule that was provided in a 2012 report. The County's current Education Facilities (Schools) Impact Fee reflects a fee schedule provided in a report titled *Hernando County School District Educational Facilities Impact Fee Update*

¹ Source: Bureau of Economic and Business Research (BEBR), University of Florida, Census Population Counts by County and City in Florida.

² Source: Federal Reserve Economic Data, Resident Population in the Southeast BEA Region, Thousands of Persons, Annual, Not Seasonally Adjusted

³ Source: Bureau of Economic and Business Research (BEBR), University of Florida, Medium range from Projections of Florida Population by County, 2025 – 2050, with Estimates for 2023.

Reference: Demonstrated Need Analysis

Study, April 11, 2019 and was adopted at 50% cost recovery of the calculated fees presented in the report. Additionally, the County's current Roads Impact Fee was adopted to reflect a 22% cost recovery of the calculated amount in the Roads Impact Fee Study performed in 2013 titled "*Hernando County Transportation Revenue Alternatives, March 2013*".

In 2022, Tindale Oliver provided the County with three impact fee reports titled "*Roads Impact Fee Update Study, April 7, 2022*", "*Impact Fee Update Study, April 4, 2022*", and "*School Impact Fee Study, August 12, 2022*". These three impact fee reports encompassed all of the impact fees evaluated in this Study and provided the County at the time with updated fee schedules reflecting 100% cost recovery. The following table displays the recently calculated impact fees compared to the County's currently adopted impact fee schedule for a Single-Family home, amounts vary depending on property classification. Table 1 below reflects adopted and calculated rates for single family units.

Table 1 - Impact Fees

<u>Single Family Impact Fees</u>	Adopted Impact Fee⁴	Calculated Impact Fee⁵	% Change
Roads	\$1,269.00	\$6,220.00	390%
Fire	\$235.00	\$320.00	36%
EMS	\$26.00	\$27.00	4%
Public Buildings	\$466.00	\$1,215.00	161%
Jail	\$7.00	\$15.19	117%
Law Enforcement	\$86.00	\$156.00	81%
Libraries	\$107.00	\$222.00	107%
Parks & Recreation	\$411.00	\$491.00	19%
Educational Facilities	\$3,176.00	\$8,764.00	176%

⁴ Hernando County Impact Fee Schedule, Effective Date: November 9, 2020.

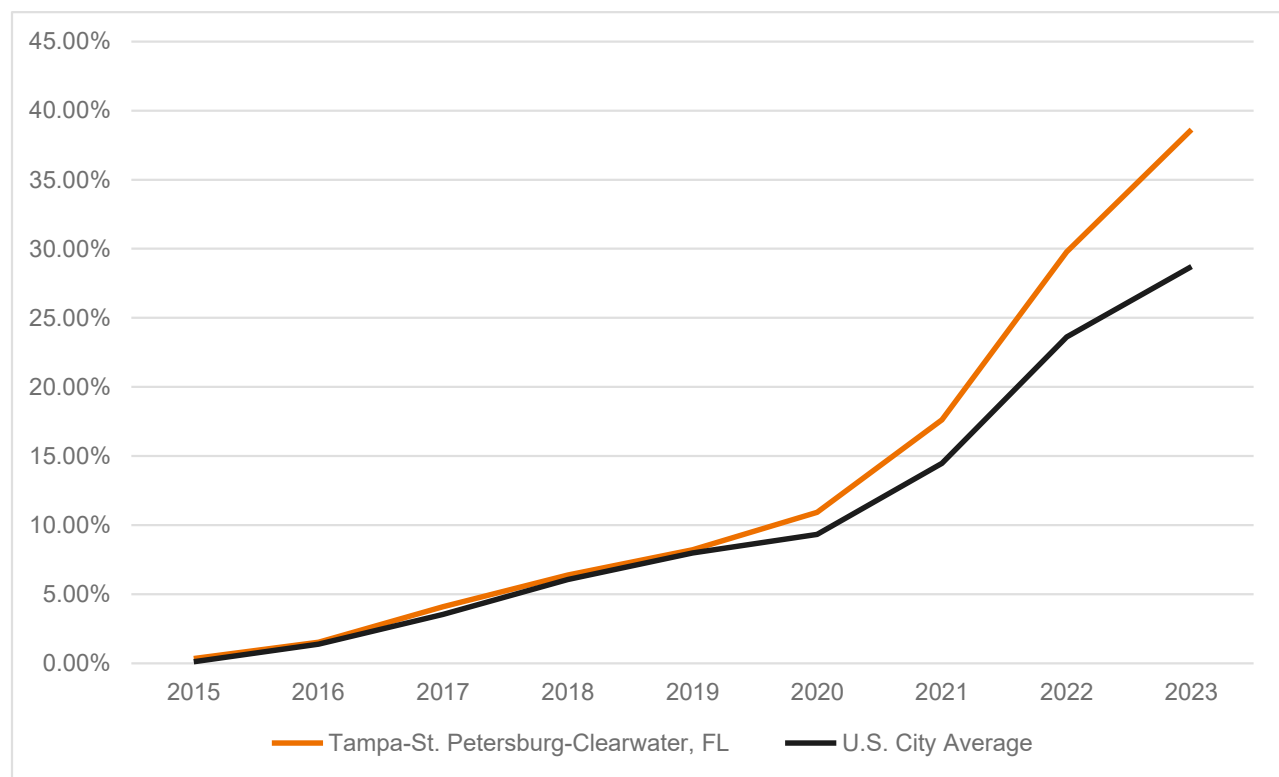
⁵ Per impact fee studies conducted by Tindale Oliver in 2022.

Reference: Demonstrated Need Analysis

Cost Increases

Construction costs relative to the cost of providing general government, law enforcement, fire, and EMS, parks and recreation and educational facility services have increased significantly over the last five years. For example, the Consumer Price Index (CPI) for the Tampa-St. Petersburg-Clearwater, FL region, which measures the average change in prices over time for a market basket of consumer goods and services, has increased by 39% from 2014 to 2023⁶. This includes an 28% increase in cost measured since 2019. As shown in Figure 2 below, the region has experienced higher overall construction cost increases in comparison to the U.S. City average by about 10%.

Figure 2 – Consumer Price Index (CPI)⁷



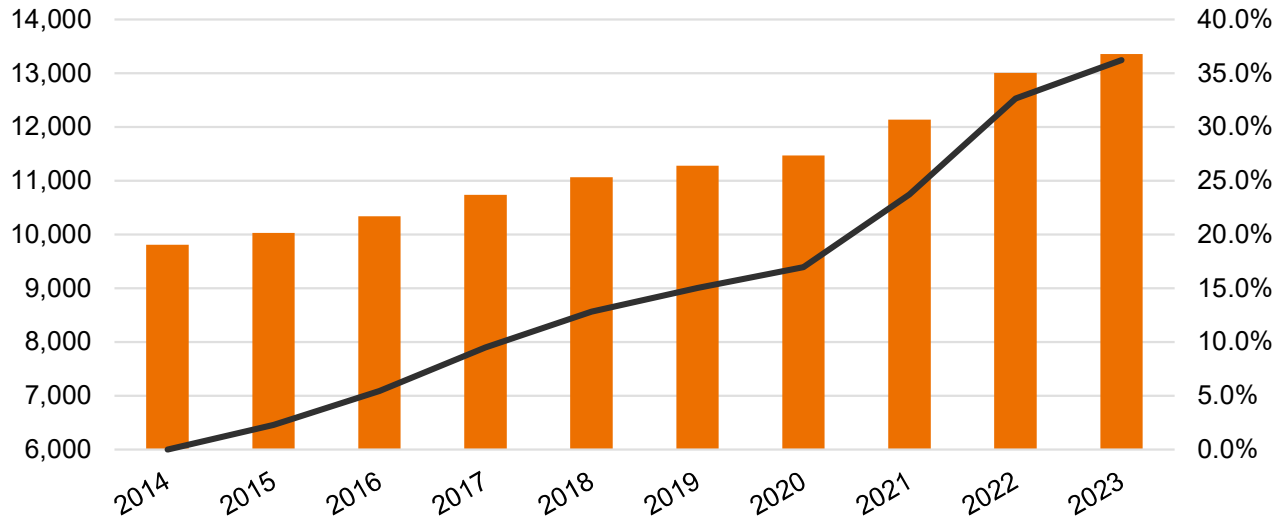
In addition, the Engineering News Record Construction Cost Index (CCI), which tracks the cost of labor, steel, cement, and lumber, has increased by 36% from 2014 to 2023. This includes an 18% increase just since 2019 as summarized in Figure 3.

⁶ Based on the change in the annual average of the Consumer Price Index (CPI) from 2014 to 2023.

⁷ Source: U.S. Bureau of Labor Statistics, based on the annual average from 2014-2023.

Reference: Demonstrated Need Analysis

Figure 3 - Engineering News Record Construction Cost Index

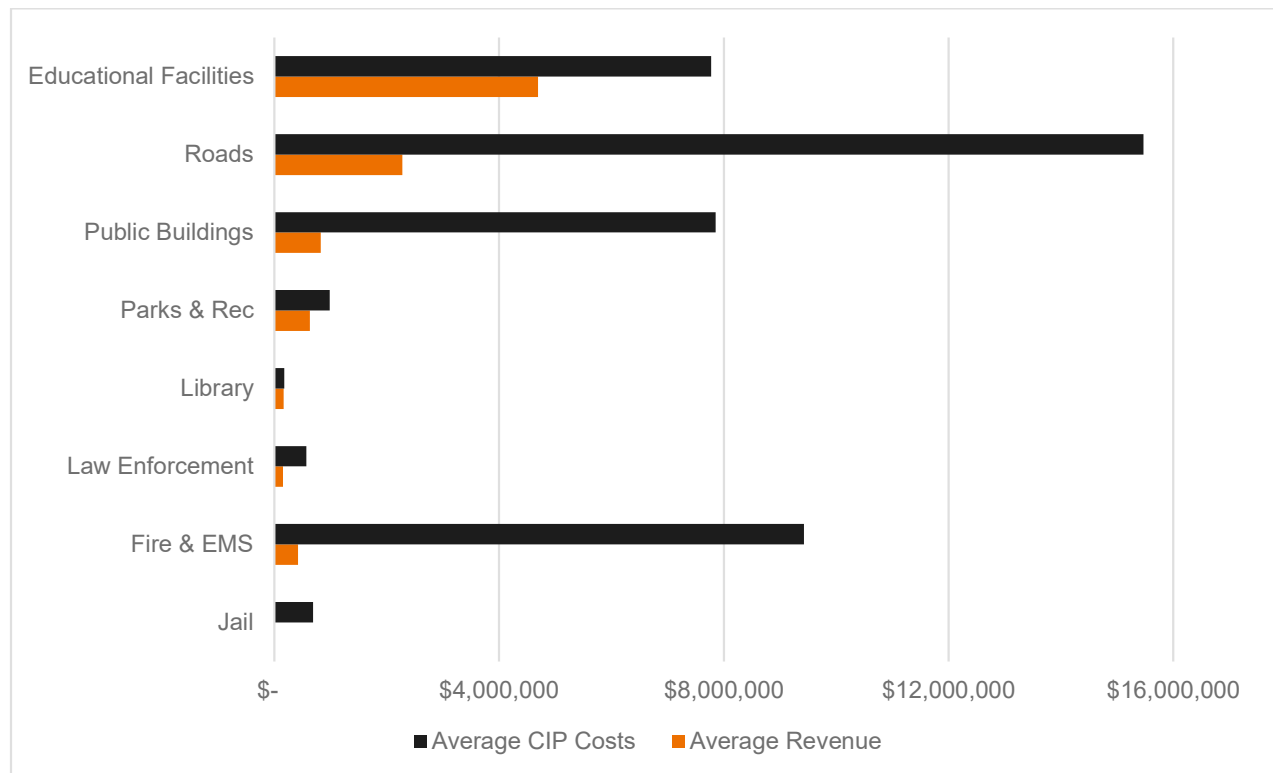


Growth-Related Capital Costs versus Revenues

The County's latest published five-year capital improvement plan (CIP) shows a total of \$495.5 million in planned capital projects and the County's School District's published five-year work plan shows a total of \$38.9 million in projects intended to add capacity to the School District. We isolated the projects that were likely expansionary, or growth-related, and categorized the projects by the service departments that are supported by impact fee revenue. The five-year average capital expansion costs are shown in Figure 4 below and represent an estimation of the annual impact fee revenues needed to support growth related costs. When compared to the average annual impact fee revenues currently being collected as shown below in Figure 4, the growth-related capital needs are higher for every department.

Reference: Demonstrated Need Analysis

Figure 4 – Average 5-Yr Historical Revenues vs. Projected Average 5-Yr Capital Expansion Plan

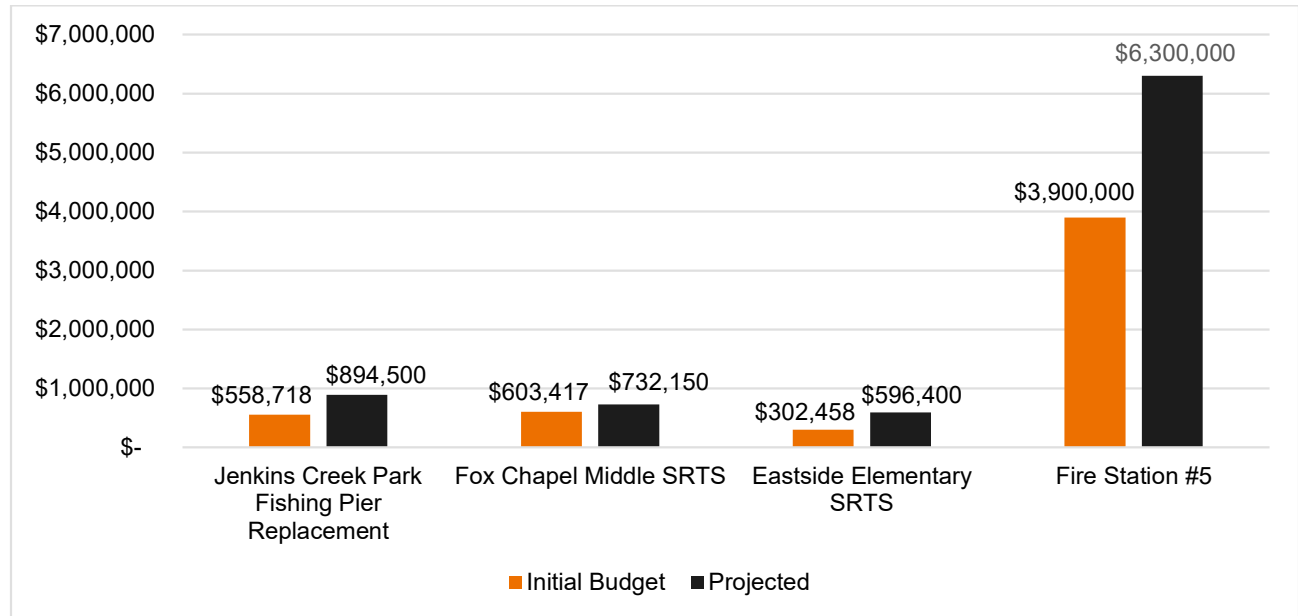


Budgeted vs. Actual Cost Increases

In recent years, the actual costs for capital projects have consistently surpassed initial budgets due to unexpected increases in construction, labor, and materials costs. The disparity between planned and actual expenditures can be linked to extraordinary increases in materials and labor costs in the region, as well as delays in project timelines due to supply chain interruptions and labor shortages. Additionally, prolonged timelines due to the pandemic and materials shortages have disrupted project phases, causing scheduling conflicts and compounding costs beyond the project's budgeted numbers. The result of the County's projects consistently exceeding their initial budgets results in a lack of funding for the County's capital improvement plan. Hernando County has seen this discrepancy occur for multiple projects across different departments. The County's current lack of proper impact fee funding further exacerbates the County's need for additional capital funding support and highlights the County's extraordinary circumstances. Figure 5 outlines several examples of projected costs for projects planned by the County that have exceeded initial budgets.

Reference: Demonstrated Need Analysis

Figure 5 – Planned Projects Initial Budget vs. Projected Costs



Revenue Loss and Impact to Existing Rate Payers

Based on policy decisions made by the County Commission, impact fees have not reflected 100% cost recovery, and therefore the County has collected far less than it could have under the impact fee schedule calculated by prior studies. With construction and labor costs continuing to trend upward and the County's current impact fees reflecting 2012 data and lower than full cost recovery levels, Hernando County's existing tax-payers may be subsidizing expansion of services by covering a portion of growth-related capital improvement costs required to serve new customers. Additionally, service requirements in the future may also require further investments that could place untenable burdens on Hernando County's taxpayers, especially if coupled with subsidizing growth-related costs due to inadequate impact fees.

Summary

Stantec's findings have identified extraordinary circumstances that demonstrate the need for the County to implement the impact fees schedules provided by the studies completed in 2022, which in some cases exceed the phasing increase limitations of the Florida Impact Fee Act. The updated impact fee schedules are necessary to cover the cost of expanding facilities, infrastructure, and supplies & materials to meet the demands of growth:

- The impact fees have remained at current levels since 2012 despite historical impact fee studies identifying the justification for increases. As such, Hernando County's existing service population of residents and businesses may be subsidizing growth by covering a portion of the growth-related capital

Reference: Demonstrated Need Analysis

expansion projects required to serve new customers until the County adjusts the impact fee schedule to reflect current costs.

- Extraordinary increases in construction costs have occurred since the current fees were implemented and have further contributed to the current fees yielding revenues significantly below the true cost of facility expansion. This places the County at risk of not maintaining level of service with their current impact fees below cost in perpetuity if the phasing guidelines are followed.
- If the County does not adopt impact fees at full-cost recovery, it risks not having adequate funding for the magnitude of capital projects required for the expansion of facilities and services based on recent and projected population growth within the County's service area. Lack of funding introduces the risk of delaying project schedules which could further lead to the lack of timely provisions for growth-related demands.
- Projected future revenue losses by not implementing full-cost recovery impact fees results in less available funding for expansion related capital projects and may result in higher borrowing and rate increases which introduces the potential for jeopardizing Hernando County's bond ratings, higher borrowing costs and therefore larger rate and other impacts on existing taxpayers.

The compilation of these factors results in the basis for confirming the extraordinary circumstances that the County faces in regards to funding growth-related investments. This study demonstrates the need to adopt the updated impact fees as presented by prior studies that may exceed the Florida Impact Fee Act phase-in limitations.

Respectfully,

STANTEC CONSULTING SERVICES INC.