Service Area Reports & Impact Fee Advisory Committee Recommendations

April 2025

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Introduction & Explanations

MCA 7-6-1602(1) requires a Montana municipality to "prepare and approve a service area report" for each facility for which it wants to charge an impact fee. This document consolidates those reports for the City of Three Forks.

MCA 7-6-1602(2) lists requirements for service area reports. That list is reproduced on the following page with each item checked to indicate that the Council and Mayor have reviewed the statutory requirements for the use of impact fees and determined that their actions, including adoption of a Capital Improvements Program (CIP) based on a buildout analysis, adoption of the service area reports assembled here, adoption of an impact fee ordinance, and the city's accounting practices for impact fees comply with state law.

Facilities Covered

These service area reports present trial impact fees for Three Forks' water and wastewater systems, storm water management, transportation, municipal buildings, and fire protection. The Mayor and Council may adopt, or not, any of the proposed fees. The proposed municipal building impact fee must be approved by a 2/3 majority because municipal buildings are not among the facilities specifically listed in MCA 7-6-1601(7).

Committee Review I

MCA 7-6-1604 requires that any city wishing to charge impact fees establish an Impact Fee Advisory Committee (IFAC). These service area reports have been reviewed and discussed by the IFAC established on September 12, 2023. The IFAC sent its recommendations to the Mayor and Council on November 20, 2024.

City Council Review

The Three Forks City Council reviewed the IFAC recommendations on December 12, 2024. The IFAC had posed a question about the trial transportation impact fee to the Council, asking if the proposed fee was too high and might have a chilling effect on small business. After discussion, the Council indicated that it would support the fee recommended in Table 2. Also on the 12th, the City Attorney raised questions that led the Council to postpone action and return this document for further consideration by the IFAC.

Committee Review II

The IFAC met on March 4, 2025, to discuss the City Attorney's concerns, which were primarily about the treatment of large-scale commercial development. That meeting led to significant changes. A new draft of this document was reviewed by the City Attorney and the IFAC, and forwarded to the Council for adoption on 5/27/2025.

Compliance with Montana Code Annotated, Title 7, Chapter 6, Part 16

(2) The service area report is a written analysis that must:

☑ (a) describe existing conditions of the facility;

☑ (b) establish level-of-service standards;

☑ (c) forecast future additional needs for service for a defined period of time;

☑ (d) identify capital improvements necessary to meet future needs for service;

☑ (e) identify those capital improvements needed for continued operation and maintenance of the facility;

☑ (f) make a determination as to whether one service area or more than one service area is necessary to establish a correlation between impact fees and benefits;

☑ (g) make a determination as to whether one service area or more than one service area for transportation facilities is needed to establish a correlation between impact fees and benefits;

☑ (h) establish the methodology and time period over which the governmental entity will assign the proportionate share of capital costs for expansion of the facility to provide service to new development within each service area;

☑ (i) establish the methodology that the governmental entity will use to exclude operations and maintenance costs and correction of existing deficiencies from the impact fee;

☑ (j) establish the amount of the impact fee that will be imposed for each unit of increased service demand; and

☑ (k) have a component of the budget of the governmental entity that: (i) schedules construction of public facility capital improvements to serve projected growth; (ii) projects costs of the capital improvements; (iii) allocates collected impact fees for construction of the capital improvements; and (iv) covers at least a 5-year period and is reviewed and updated at least every 5 years

These Fees Maximum

The trial impact fees calculated in these reports are the maximum defensible. The Council cannot increase them without new data or changing the assumptions on which they are based. The Council may choose to charge lower impact fees because other sources of funding will be used.

Administrative Fee

MCA 7-6-1601(5)(a) authorized the city to add a five-percent (5%) administrative fee to each impact fee it charges. The Impact Fee Advisory Committee recommended that this fee be adopted at its October 16, 2024, meeting. However, this was repealed via Senate Bill 133 in the 2025 Legislative Session so is no longer included in the recommended fee schedule in Table 2, found on page 21.

Contents of Reports

Each service area report follows a step-by-step process that reflects both the statutory requirements and best practices that are widely followed for calculating impact fees. That process is described in detail in the appendix.

These reports reflect the understanding of the growth anticipated and the facilities needed to serve that growth embodied in the August 2024 CIP. That understanding will evolve through time. These reports and the impact fees should be updated as it does. The cost figures given in the CIP and used as a basis for these service area reports are the best estimates possible at the time. Actual costs will vary. The scheduling of improvements in the CIP is subject to change for reasons that include the pace of development, the availability of funds, and even the weather.

SERVICE AREA REPORT – WATER SYSTEM

STEP 1 - Anticipate Growth

The existing water system and its capacity to serve Three Forks' anticipated growth is described in the CIP, pages 15-22.

STEP 2 - Identify Improvements
STEP 3 – Categorize Improvements

The CIP lists specific improvements the water system needs. Some of those projects cannot be funded by impact fees because their main purpose is to correct existing deficiencies. Two projects are primarily necessitated by growth and could be partially funded by impact fees: a new water system master plan that is scheduled for completion in FY 2027 at an estimated cost of $80,000, and a new transmission main that is scheduled for installation in FY 2026 at an estimated cost of $1,375,000.

STEP 4 – Apply Cash on Hand, as Appropriate

The city does not have cash on hand that can be used to reduce the cost of the proposed improvements before trial water system impact fees are calculated. The water system impact fees previously collected have been committed to current projects.

STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth

The proposed water system improvements identified in Step 2 will benefit both existing and future water users. This means that impact fees cannot pay their entire cost, only the growth-serving share, which is determined using the buildout analysis.

STEP 6 – Split Costs between Residential and Commercial

The next step in calculating trial water system impact fees is to use water meter records to determine the split between commercial (which for this purpose, includes all nonresidential uses) and residential water consumption. That split in the most recent year is 17%/83%, commercial/residential.

It is not possible to charge impact fees for commercial and residential development on the same basis. The sensible way to charge for homes is the way they're built, dwelling unit by dwelling unit. But commercial development doesn't break neatly into "units." Commercial buildings are of different sizes and used for different purposes, but their diversity can be reduced to square feet of building area.

To calculate trial water system impact fees, the costs of the improvements are split 17%/83%. The results of that calculation are then divided by the number of dwelling units (2006 total, existing and anticipated) and the building area of commercial uses (390,000 SF total, existing and anticipated) established in the buildout analysis.

That math leads to a trial water system impact fee of $612.36 for each new dwelling unit and $0.645 for each square foot of new commercial space (a 1,000 SF commercial building would pay $645.00). But accuracy requires another step. Different types of residential uses consume different quantities of water, and that is even more true for commercial uses.

STEP 7 – Split Costs among Types: Residential

Single-family homes tend to consume more water than multi-family dwellings. Three Forks' currently acknowledges this by setting its water system impact fee at 80% as much for an apartment (except the first one, which pays the same as a single-family dwelling) as for a single-family dwelling. Analyzing water meter records suggests, though, that the 80% discount is generous. Water consumption varies a lot among dwellings, but overall, multi-family dwellings are using 88% as much as single-family. To account for that difference while raising the revenue needed to support the improvements listed here, the trial water system impact fee is $575.62 for multiple-family dwellings and $624.61 for single-family dwellings. Those figures split the fees that would not be collected if multi-family dwellings were simply charged 88% as much as single-family.

STEP 7 – Split Costs among Types: Commercial

Splitting costs for commercial uses is not as straightforward as it is for residential. The city currently addresses the varying consumption of water by commercial uses by adjusting its water system impact fee upward for projects that need a larger water meter. The city will continue to use meter size, but because that alone does not provide a defensible basis for showing how trial impact fees raise specific amounts of revenue for specific improvements, we'll start with the common denominator of building size, then adjust for meter size when necessary.

The $0.645 per square foot trial water system impact fee calculated here incorporates two assumptions. First, it is based on the amount of infill commercial development anticipated in the CIP. The rest of the cost of the water system improvements called for by the CIP is attributed to residential growth. Second, it assumes that building size and water consumption are proportional. That is a reasonable assumption for the small-scale commercial uses the CIP assumes will fill in existing vacant lots and under-utilized buildings. It is not a reasonable assumption for larger commercial developments. Here's an example of why.

Imagine a 20,000 square foot warehouse that has a lightly used employee restroom and needs a little water for janitorial purposes. Applying the assumption that building size and water consumption are proportional would result in $12,900 in water system impact fees ($0.645 X 20,000). A busy restaurant that is one-fifth the size of the warehouse, but uses more water, would pay only $2,580 ($0.645 X 4,000). That's unfair. But since the warehouse would need only a ¾" water meter and the restaurant should have a 1½" or even 2" meter, the city will adjust the water system impact fee by meter size (proportional to the flow the meter would allow). The trial water system impact fee for the warehouse would fall to $2,580 ($0.645 X 4,000, with no water system impact fee being assessed for the remaining building area), while the restaurant would pay $5,160 ($1.290, from the water meter size adjustment table X 4,000).

STEP 8 – Allocate Costs by Benefit Area

The water system improvements identified here serve the entire city. There is no need for benefit areas.

STEP 9 – Calculate Trial Impact Fees

The trial water system impact fees are:

For single-family dwellings - $624.61 per unit

For multiple-family dwellings - $575.62 per unit

For commercial (nonresidential) projects - $0.645 per SF up to 4,000 SF building area, adjusted upward if water meter is larger than one inch in diameter using the table below

Water System Impact Fee Adjusted for Meter Size

Meter Size *inches*	**$ per SF, up to 4,000 SF**
0.75-1.0	0.645
1.25	0.903
1.5	1.290
2	2.064
3	4.128
4	6.450
6	12.900
8	20.640

At buildout, these fees will have raised approximately 52% of the costs of the growth-serving water system improvements listed in the CIP. The exact yield will vary with the exact mix of housing types – single v. multi-family – and with the number and size of large commercial projects, neither of which can be precisely anticipated. This yield calculation assumes that the mix at buildout will be 75%/25%, single-family/multi-family and that there are no large scale commercial projects.

NEXT STEPS

These trial water system impact fees cannot reflect the currently unknown costs of finding and developing additional water sources or of any additional improvements that may be recommended in the new water system master plan. Three Forks' water system impact fees should be revised promptly after completion of that plan.

SERVICE AREA REPORT – WASTEWATER SYSTEM

STEP 1 - Anticipate Growth

The existing wastewater system and its capacity to serve Three Forks' anticipated growth is described in the CIP, pages 23-28.

STEP 2 - Identify Improvements
STEP 3 – Categorize Improvements

The CIP lists specific improvements the wastewater system needs. Some of those are necessary to maintain the existing level of service and cannot be funded by impact fees. The growth-serving projects that could be funded by impact fees are:

- Production of a Preliminary Engineering Report (PER) for the wastewater system is scheduled to begin in FY 2025 at an estimated cost of $80,000. This planning effort will benefit both existing and new wastewater system users.

- The anticipated growth will necessitate enlargement of a trunk main in the center of the city. This project is scheduled for completion in FY 2029 at an estimated cost of $3,100,000.

- The lift station that moves wastewater into the treatment plant needs upgrades with or without growth, but the extent of the improvements – which are scheduled for FY 2028 at an estimated cost of $2,300,000 - is determined by the anticipated growth.

- The wastewater treatment plant (WWTP) has limited excess capacity - enough to serve 130 homes - but must be expanded to serve most of the anticipated growth. The cost of the WWTP expansion is estimated at $4,700,000.

- The costs of wastewater system improvements given here reflect a correction of the CIP. Adoption of this service area report should be understood to amend the CIP.

STEP 4 – Apply Cash on Hand, as Appropriate
STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth

- A $55,000 grant has been secured for the PER. $25,000 of previously collected wastewater impact fees could also be used, fully funding this project without wastewater system impact fees.

- The proposed trunk main enlargement will serve the entire city except for the Southeast Residential Area (where the developer will install a separate sewage collection system), including infill residential and commercial, and new dwellings in the Northwest Residential Area. It will also improve service for existing users. $500,000 dollars of cash on hand (which has been generated by wastewater user fees) can be applied to reduce the costs of this project before calculating trial wastewater system impact fees.

- The proposed lift station upgrades will serve the entire city except for the Southeast Residential Area (where the developer will install a new lift station), including infill residential and commercial, and new dwellings in the Northwest Residential Area. It will also improve service for existing users. $500,000 dollars of cash on hand (which has been generated by wastewater user fees) can be applied to reduce the costs of this project before calculating trial wastewater system impact fees.

- The proposed lift station upgrades are also eligible for state grants and loans that could further reduce what might be paid by impact fees. The city's engineers estimate that grants and loan forgiveness could total $1,475,000. There is, however, some uncertainty about Three Forks' ability to secure these funds without a potentially unpopular and arguably unnecessary increase in user fees. We think it is prudent to discount them by 50% in the calculations made here.

- The entire cost of the WWTP expansion, minus an adjustment for the excess capacity, could be funded by impact fees. Since 130 dwellings represent 11.9% of anticipated residential buildout, project costs are reduced by that much to result in the correct calculation of the trial impact fees. The $455,000 balance of previously collected wastewater impact fees ($25,000 is directed to the Wastewater PER) could then be applied to reduce costs before trial wastewater impact fees are calculated.

- The proposed WWTP expansion is also eligible for state grants and loans that could further reduce what must be paid by impact fees. The city's engineers estimate that grants and loan forgiveness could total $1,475,000. There is, however, some uncertainty about Three Forks' ability to secure these funds without a potentially unpopular and arguably unnecessary increase in user fees. We think it is prudent to discount them by 50% in the calculations made here.

STEP 5 – Split Costs between Residential and Commercial
STEP 6 – Split Costs among Types of Residential and Commercial

Wastewater flows from individual uses are not metered. It is assumed that wastewater generation is directly proportional to water consumption, so costs are split in the same way as for the water system.

STEP 7 – Allocate Costs by Benefit Area

Because different wastewater system improvements will serve different parts of the city, there are two wastewater benefit areas: 1) the Southeast Residential Area and 2) the remainder of Three Forks.

STEP 8 – Calculate Trial Impact Fees

The trial wastewater system impact fees proposed here are:

Southeast Residential Benefit Area, per dwelling unit

Single-Family – $2,280.42

Multi-Family - $2,101.56

Remainder of Three Forks Benefit Area, per dwelling unit

Single-Family – $5,034.12

Multi-Family - $4,639.29

Commercial (nonresidential) - $2.882 per SF up to 4,000 SF building area, adjusted upward if water meter is larger than one inch in diameter using the table below

Wastewater System Impact Fee
Adjusted for Meter Size

Meter Size *inches*	**$ per SF, up to 4,000 SF**
0.75-1.0	2.882
1.25	4.001
1.5	5.764
2	9.222
3	12.819
4	18.445
6	29.512
8	41.021

Charging these trial wastewater system impact fees would result in new development paying approximately 34% of the costs of wastewater system improvements at buildout. The exact yield will vary with the mix of single-family versus multi-family dwellings that get built, and with the number and size of large commercial projects.

NEXT STEPS

We can't know now what the updated wastewater system master plan will call for. We can only say that the wastewater system impact fees proposed here may require revision after that plan is completed.

SERVICE AREA REPORT – STORM WATER MANAGEMENT

STEP 1 - Anticipate Growth
STEP 2 - Identify Improvements
STEP 3 – Categorize Improvements

The CIP (see pages 29-30) calls for preparation of a plan for a comprehensive new approach to storm water management (SWM) in Three Forks. That planning effort is scheduled for FY 2026, will cost $90,000, and will benefit all development, existing and anticipated.

STEP 4 – Apply Cash on Hand, as Appropriate

A trial impact fee for SWM has been calculated to help everyone understand the overall costs of growth, but the city has cash on hand for flood control that can be used to pay for the proposed SWM plan.

STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth

Since there is no existing SWM system, the only work that could be funded by impact fees is an SWM plan. And since that plan would cover the whole community, the split between correcting deficiencies and serving growth is calculated as the split between existing and future development at buildout.

STEP 6 – Split Costs between Residential and Commercial

Determining the split of SWM costs between residential and commercial uses is not that easy. The best basis for allocating SWM impact fees is impervious cover; the extent of impermeable surfaces, like roofs and paving, that generates surface runoff that should be managed to avoid damage to infrastructure and property. We considered using a national land cover database to measure existing impervious cover in Three Forks, but the costs of processing and ground truthing that data would exceed the resources available for the calculation of all impact fees.

Given that no physical improvements are proposed, just preparation of a plan, we believe that an equitable temporary basis for a trial SWM impact fee is the difference in building coverage permitted by the city's zoning. Residential uses are generally allowed 35% building coverage. Commercial uses may cover their entire lot, so the trial SWM fees are split 65%/35%. The SWM plan should provide the information needed to base future SWM impact fees on impervious cover.

STEP 7 – Split Costs among Types of Residential and Commercial
STEP 8 – Allocate Costs by Benefit Area

There is no need to split SWM costs among different types of uses or establish benefit areas. The SWM plan will address differences among land uses and recommend benefit areas, as needed.

STEP 9 – Calculate Trial Impact Fees

While this report recommends a different way of funding the proposed SWM plan, the trial SWM impact fees are $15.70 per dwelling unit and $0.150 per square foot of commercial building (a 1,000 square foot building would pay $150). Collecting these fees would generate just over half the cost of the SWM plan at buildout, leaving a 49% share for existing uses to be covered by other funding sources.

NEXT STEPS

We do not know what the proposed SWM plan will recommend. It could assign most costs directly to developers, minimizing or even eliminating the need for SWM impact fees. Or it could call for the construction of a municipal SWM system that is partially funded by impact fees. All we can say for sure is that it will be necessary to create a new service area report following completion of the SWM plan.

SERVICE AREA REPORT – TRANSPORTATION

STEP 1 - Anticipate Growth
STEP 2 - Identify Improvements
STEP 3 – Categorize Improvements

The CIP (see pages 31-39) calls for preparation of a Long-Range Transportation Plan (LRTP) and a Bicycle/Pedestrian Master Plan to identify the transportation issues and needs created by Three Fork's anticipated growth. It also describes two specific growth-serving street projects that it seems clear will be needed.

STEP 4 – Apply Cash on Hand, as Appropriate

Three Forks has cash on hand that can be used for transportation planning and street improvements. This report suggests using it to complete the LRTP and Bike/Pedestrian Plan because these guiding documents should be available as soon as possible. The remaining amount - $280,000 – can be applied to the Dakota Street improvements described in the CIP, slightly reducing the trial transportation impact fees.

STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth

The LRTP – which is scheduled for FY 2025 at an estimated cost of $80,000 - and the Bicycle/Pedestrian plan – which is scheduled for FY 2028 at an estimated cost of $30,000 - will benefit the entire city. They could be partially funded by impact fees, but this report suggests funding them with cash-on-hand.

The first improvement listed in the CIP is growth-serving, providing a safer, more serviceable connection from the impending development of the Southeast Residential Area to the rest of Three Forks. Benefits to existing residential uses would be minimal (affected homeowners may consider the construction and added traffic to be nuisances). Existing businesses that gain customers from the new neighborhood would benefit. 100% of this project could be funded by impact fees. It is estimated to cost $7,595,000 and expected to begin sometime after FY 2029.

The second project will rebuild Dakota Street and that complicated intersection where Dakota, Railway, Second Avenue West, and West Elm converge on the edge of downtown. This will facilitate traffic flows and safety as the Northwest Residential Area develops and commercial uses fill in. It is scheduled for after FY 2029 and is estimated to cost $7,511,000. This improvement of a major intersection will benefit the entire city.

STEP 6 – Split Costs between Residential and Commercial

Calculation of transportation impact fees raises interesting questions. If a trip is from a home to a business should that trip be attributed (and an impact fee charged) to the residential use or the commercial? or both? Then there is the reality that different businesses generate different demands; a restaurant usually draws more traffic than a quilt shop. And what about trips to multiple destinations? One might go downtown to pick up a prescription, have lunch, and stop at the library. Then there are trips that leave Three Forks or originate elsewhere; a resident commuting to Bozeman, a contractor coming from Belgrade. The LRTP will deal with this complexity.

Our goal for now is to propose trial transportation impact fees that would allow the city to begin collecting funds for street improvements for which the need seems clear. This requires making some simplifying assumptions, starting with the assumption that the 25%/75% commercial/residential split of overall city business explained in the service area report for municipal buildings is a fair proxy for the split in traffic generation. The other assumptions are explained in Step 7.

STEP 7 – Split Costs among Types of Residential

Single-family dwellings tend to generate more trips than multi-family. We have no local data for Three Forks, but widely used national sources suggest that multi-family units generate 80-90% as much traffic as single family. We use the data-based 88% difference in water consumption as a proxy.

STEP 7 – Split Costs among Types of Commercial

We also assume that the traffic generation of small commercial uses (those with 4,000 SF or less of building area and a water meter of under one inch) is similar enough to apply the same per square foot trial transportation impact fee until the LRTP is completed. The remaining question is how to deal with the traffic impacts of larger commercial projects before the LRTP is completed.

An easily measured proxy for traffic generation is the number of parking spaces serving a development. But what type of development? Retail commercial buildings can safely be assumed to be the most common significant traffic generators as Three Forks grows. A typical retail commercial building of 4,000 SF will be required to provide 12-20 parking spaces. Dividing the trial impact fee for a 4,000 SF retail building by 16 parking spaces yields $4,125.50 per space. That can reasonably be applied to larger commercial developments as a trial impact fee until the LRTP is completed.

STEP 8 – Allocate Costs by Benefit Area

Two benefit areas are required to calculate trial transportation impact fees for Three Forks. The first is the entire city, which benefits from transportation planning efforts and the major

intersection reconstruction project. The second is the SE Residential Area, which will benefit from improvements of the connecting streets.

STEP 9 – Calculate Trial Impact Fees

The resulting trial impact fees for transportation are:

SE Residential, single-family, per unit – $7,917.60

SE Residential, multi-family, per unit – $7,296.61

Remainder of City, single-family, per unit – $2,757.58

Remainder of City, multi-family, per unit – $2,541.30

Commercial, per square foot - $16.502, with this being increased by a $4,125.50 per parking space fee after the first 16 parking spaces.

NOTE: The trial transportation impact fee for commercial uses calculated here has been determined to be excessive. Adjustments are explained on page 21 of this document.

Charging these trial transportation impact fees would yield approximately 82% of the listed transportation improvements at buildout, leaving 18% to be covered by other funding sources. The exact yield will vary depending on the exact mix of single-family versus multi-family dwellings built, and the extent of large commercial development.

NEXT STEPS

This service area report and transportation impact fees must be revisited after completion of the LRTP.

SERVICE AREA REPORT – MUNICIPAL BUILDINGS

STEP 1 - Anticipate Growth
STEP 2 - Identify Improvements
STEP 3 – Categorize Improvements
STEP 4 – Apply Cash on Hand, as Appropriate
STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth

The CIP describes Three Fork' existing municipal buildings and some improvements that correct existing deficiencies on pages 40-41. It also calls for an architectural study of a new facility that would house the city offices, meeting rooms, and the fire department, as well as providing space for the Gallatin County Sheriff's Department, for which the city now leases an office. This facility would serve the entire population, including anticipated growth. It could be partially funded by impact fees. The architectural study is scheduled for FY 2025 at an estimated cost of $65,000. There is no cash on hand that can be applied to this facility.

STEP 6 – Split Costs between Residential and Commercial

City staff estimates that 70-75% of the business conducted in their offices serves residents, while 25-30% serves the business community. Applying a 72.5%/27.5% split to the estimated cost of the architectural study results in trial impact fees of $23.49 per dwelling unit and $0.046 per square foot of commercial building area (a 1,000 square foot building would pay $46).

STEP 7 – Split Costs among Types of Residential and Commercial
STEP 8 – Allocate Costs by Benefit Area

A new municipal building would provide roughly the same level of service to the entire community. There is no need to split costs among users or create benefit areas. It may eventually be necessary to determine what share of building costs should be borne by the rural fire protection district.

STEP 9 – Calculate Trial Impact Fees

The trial municipal buildings impact fees are $23.49 per dwelling unit and $.046 per square foot of commercial building area. Collecting these fees would eventually cover just over half the cost of the architectural study, leaving a 49% share for existing uses that must be covered by other funding sources.

NEXT STEPS

Completion of the architectural study should trigger discussion of the need for a new municipal building. That could then lead to a new service area report and calculation of trial impact fees to help fund the project.

SERVICE AREA REPORT – FIRE PROTECTION

STEP 1 - Anticipate Growth
STEP 2 - Identify Improvements

The CIP (see pages 42-43) describes Three Forks' Volunteer Fire Department, which also serves a large rural area through a special district. The department's future building space needs are addressed in the Service Area Report – Municipal Buildings.

STEP 3 – Categorize Improvements
STEP 4 – Apply Cash on Hand, as Appropriate
STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth

The other need that could be partially funded by impact fees is for a new engine that is scheduled to be acquired in FY 2029 at an estimated cost of $750,000. That cost must be reduced by the current and projected (through FY 2029) balance in a voter-approved levy for the costs of an engine before calculating the trial impact fee. The city has also been collecting fire protection impact fees that can be applied to this purchase.

STEP 6 –Split Costs between Residential and Commercial

The residential/commercial split for fire apparatus is based on the relative values of the properties protected, which can be taken from the property tax rolls. In Three Forks that split is 76%/24% (note the interesting similarity to the staff estimate of the overall split of city business). The resulting trial impact fees are $118.00 per dwelling unit and $0.192 per square foot of commercial building area (a 1,000 square foot building would pay $192.00).

STEP 7 – Split Costs among Types of Residential and Commercial
STEP 8 – Allocate Costs by Benefit Area

The fire department provides the same level of service to the entire community. There is no need to split costs among users or create benefit areas within the city. The relationship of the city and the rural fire protection district was established by an interlocal agreement that is reviewed and discussed annually.

STEP 9 – Calculate Trial Impact Fees

The trial fire protection impact fees are $87.69 per dwelling unit and $0.142 per square foot of commercial building area. Collecting these fees would cover 16% of the cost of the new engine, leaving the remainder to be covered by dedicated property tax revenues and previously collected impact fees. It is worth noting that it will take approximately nine more years for the tax levy to accumulate enough to purchase the fire engine (presuming that the cost of the engine does not increase), long past FY 2029 when replacement is due.

NEXT STEPS

The next step in facilities planning for fire protection will be the discussion that follows completion of the architectural study called for in the Service Area Report – Municipal Buildings.

TOTAL IMPACT FEES

Table 1 summarizes the trial impact fees calculated in the service area reports and shows the total. Please be reminded that these trial impact fees are the maximum defensible; are subject to revision as the city does more detailed infrastructure planning, and may be appealed, allowing the Mayor and Council to consider exceptions for atypical projects. It is most important to be aware that the trial impact fees for commercial (nonresidential) development shown in the table are for small projects, those with a building area of 4,000 SF or less and requiring a water meter no larger than one inch. For larger commercial projects, these basic fees must be adjusted upward as indicated in the relevant service area reports.

Table 1 – Summary and Total of Trial Impact Fees

Water		
multi-family, per unit	$	575.62
single-family, per unit	$	624.61
commercial, per SF	$	0.645
Wastewater		
SE Residential		
multi-family, per unit	$	2,101.56
single-family, per unit	$	2,280.42
Remainder of Three Forks		
multi-family, per unit	$	4,639.29
single-family, per unit	$	5,034.12
commercial, per SF	$	2.882
Stormwater		
all residential, per unit	$	-
commercial, per SF	$	-
Transportation		
SE Residential		
multi-family, per unit	$	7,296.61
single-family, per unit	$	7,917.60
Remainder of Three Forks		
multi-family, per unit	$	2,541.30
single-family, per unit	$	2,757.58
commercial, per SF	$	16.502
Municipal Buildings		
all residential, per unit	$	23.49
commercial, per SF	$	0.046
Fire Protection		
all residential, per unit		$87.69
commercial, per SF	$	0.142

TOTAL IMPACT FEES

SE Residential		
multi-family, per unit	**$**	**10,084.97**
single-family, per unit	**$**	**10,933.80**
Remainder of Three Forks		
multi-family, per unit	**$**	**7,867.39**
single-family, per unit	**$**	**8,527.49**
commercial, per SF	**$**	**20.218**

Some of the per SF trial impact fees for commercial uses must be adjusted upward for larger commercial projects, as explained in the service area reports.

These trial impact fees should not be shocking. This is what it costs to build infrastructure everywhere. In fact, because Three Forks has managed well and has cash on hand that can be applied to some proposed improvements, these fees are relatively modest.

IMPACT FEE ADVISORY COMMITTEE RECOMMENDATION

In evaluating the trial impact fees shown in Table 1, the IFAC noted that the total trial impact fees for the SE Residential Benefit Area are substantially higher than those for the remainder of the city. This is due entirely to the cost of the transportation improvements needed to link development there with the rest of the city. The IFAC is also concerned that the trial impact fees may be high enough to discourage investment in small businesses in Three Forks' existing commercial areas. Based on these observations, the IFAC recommends reducing the trial transportation impact fees in two ways.

First, to help moderate the cost of new dwellings in the SE Residential Benefit Area the trial transportation impact fees for that area should be the same as in the rest of the city, at least until the proposed transportation improvements are re-evaluated in a Long-Range Transportation Plan.

Second, the transportation impact fee should be reduced for small commercial development (projects of 4,000 SF building area or less that do not require a water meter larger than one inch in diameter). This will help implement the city's growth policy by encouraging enterprises that might renovate existing commercial structures for a new use or construct new buildings on vacant land in the center of the city. If the trial transportation impact fee for small commercial is reduced by the same percentage as is recommended for dwellings in the SE Residential Benefit Area, it falls to 35% of the amount shown in Table 1.

These recommended reductions lead to Table 2, which appears on the next page. That schedule of impact fees seems reasonable to the IFAC, which recommends its adoption as the city's new schedule of impact fees.

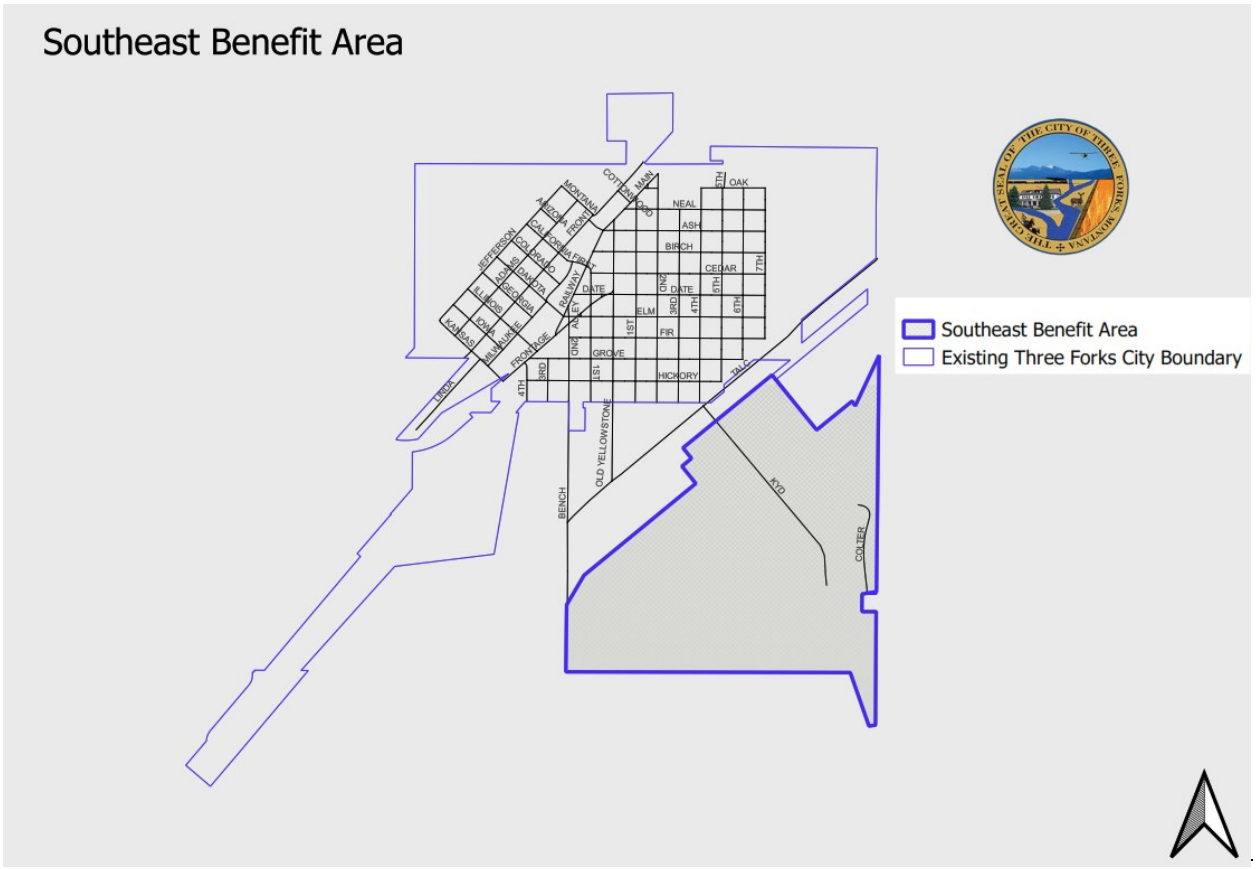

Southeast Benefit Area
Southeast Benefit Area
Existing Three Forks City Boundary
OAK
NEAL
ASH
BIRCH
CEDAR
DATE
ELM
FIR
GROVE
HICKORY
MONTANA
AMERICA
FRONT
JEFFERSON
COLORADO
CALIFORNIA
FIRST
GALLATIN
DAKOTA
RAILWAY
ALLEY
ILLINOIS
IOWA
WILLIAMETTE
KANSAS
FRONTAGE
MAIN
COTTONWOOD
1ST
2ND
3RD
4TH
5TH
6TH
7TH
LINDA
OLD YELLOWSTONE
BENCH
KYD
COLTER

TABLE 2 - RECOMMENDED IMPACT FEE SCHEDULE

Water		
multi-family, per unit	$	575.62
single-family, per unit	$	624.61
commercial, per SF, up to 4000 SF	$	0.645
Wastewater		
SE Residential		
multi-family, per unit	$	2,101.56
single-family, per unit	$	2,280.42
Remainder of Three Forks		
multi-family, per unit	$	4,639.29
single-family, per unit	$	5,034.12
commercial, per SF, up to 4000 SF	$	2.882
Stormwater		
all residential, per unit	no fee at this time	
commercial, per SF	no fee at this time	
Transportation		
SE Residential		
multi-family, per unit	$	7,296.61
single-family, per unit	$	7,917.60
Remainder of Three Forks		
multi-family, per unit	$	2,541.30
single-family, per unit	$	2,757.58
commercial, per SF, up to 4000 SF	$	16.502

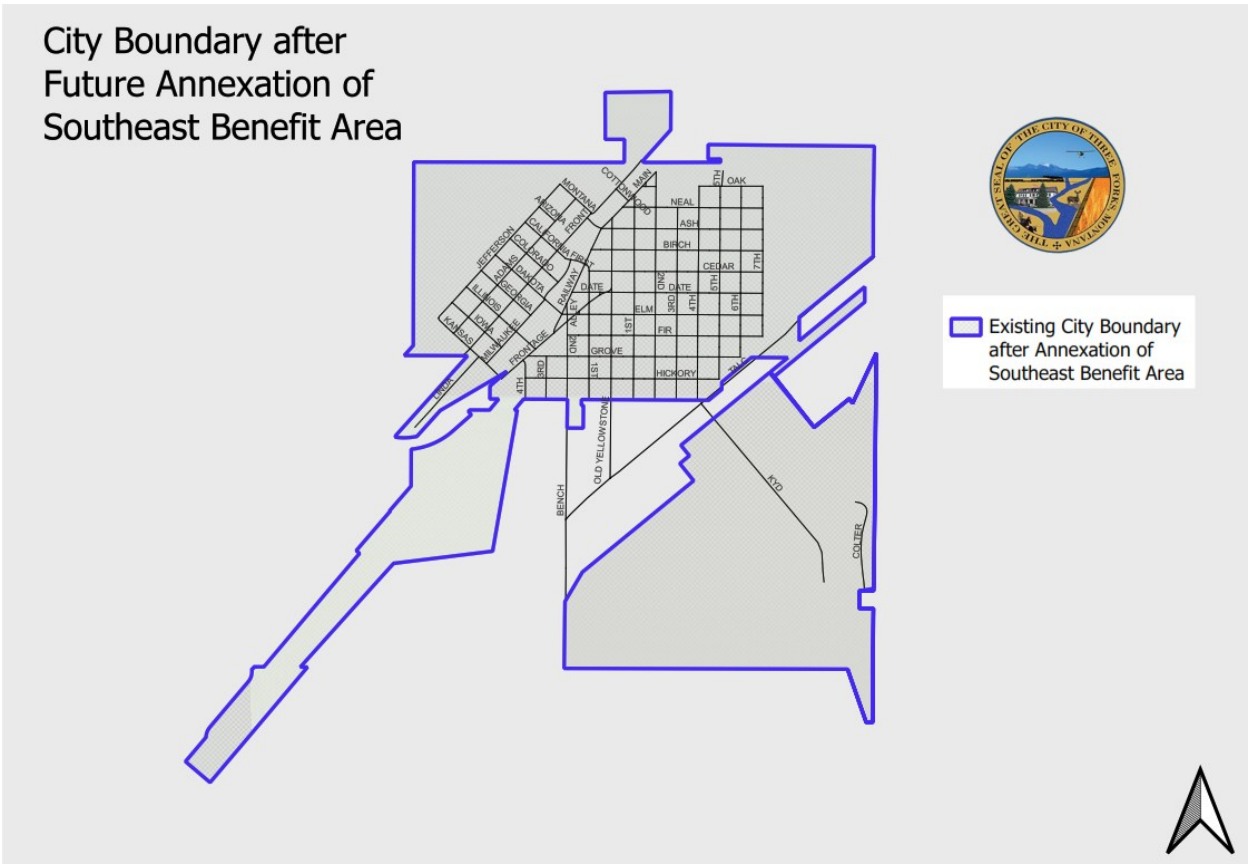
Municipal Buildings		
all residential, per unit	$	23.49
commercial, per SF	$	0.046
Fire Protection		
all residential, per unit	$	87.69
commercial, per SF	$	0.142

TOTAL IMPACT FEES

SE Residential		
multi-family, per unit	**$**	**5,329.66**
single-family, per unit	**$**	**5,773.79**
Remainder of Three Forks		
multi-family, per unit	**$**	**7,867.39**
single-family, per unit	**$**	**8,527.49**
commercial, per SF	**$**	**9.491**

Transportation Impact Fee Adjustments		
	$	2,541.30
	$	2,757.58
	$	5.78

The trial impact fees for water, wastewater, and transportation for commercial uses must be adjusted upward for larger projects, as explained in the service area reports. The water and wastewater trial impact fees for larger projects will be adjusted upward by water meter size. This adjustment is shown on in tables pages 7 and 10 of this document. The adjustment of the trial transportation impact fee is only a bit more complicated. Commercial buildings will pay $5.78 per SF up to 4,000 SF. After that, they will pay an additional $4,125.50 for each parking space after the 16th.


City Boundary after
Future Annexation of
Southeast Benefit Area
Existing City Boundary
after Annexation of
Southeast Benefit Area
OAK
NEAL
ASH
BIRCH
CEDAR
DATE
ELM
FIR
GROVE
HICKORY
MAIN
RAILWAY
ALLEY
FRONT
MONTANA
ARIZONA
CALIFORNIA
COLORADO
DAKOTA
IDAHO
ILLINOIS
KANSAS
1ST
2ND
3RD
4TH
5TH
6TH
7TH
BENCH
OLD YELLOWSTONE
KYD
COLTER

APPENDIX - CALCULATING IMPACT FEES STEP-BY-STEP

Reading the service area reports should make it clear that they are works-in-progress. The engineering studies they call for will result in changes to the list and costs of improvements needed. Those changes will, in turn, necessitate the update of the trial impact fees proposed in the service area reports. Here is the step-by-step process for updating impact fees. A worksheet has been designed to help city staff implement these steps

STEP 1 – Anticipate Growth. The CIP and service area reports are grounded in an analysis that "builds out" Three Forks' land base as a basis for deciding what facilities improvements are needed to serve the city's growth. It may be necessary to revise the buildout analysis as growth occurs. That should be done with professional assistance. While buildout remains the same, however, impact fees can be revised or added following these steps.

STEP 2 – Identify Improvements. The August 2024 CIP lists the improvements needed to maintain and expand city facilities based on the current understanding of facilities capacity and anticipated growth. Additional improvements that are identified in the engineering studies and plans proposed in the CIP must be amended into the CIP before impact fees are updated.

STEP 3 – Categorize Improvements. This step answers the basic question: Can an impact fee pay for all or part of an improvement that is in or being added to the CIP? Proposed improvements ordinarily fall into one of three categories: 1) those that primarily correct deficiencies in serving the existing population and cannot be funded by impact fees; 2) those that are necessary only due to anticipated growth and may be funded up to 100% by impact fees; and 3) those that both correct deficiencies and serve growth, which may be partially funded by impact fees. There may also be projects like the RV dump station listed in the current CIP that do not fit into these categories and cannot be funded by impact fees.

STEP 4 – Apply Cash on Hand, as Appropriate. Sound fiscal management has given Three Forks cash on hand that may be applied to some of the improvements proposed in the CIP. The current balances of impact fees previously collected for the wastewater system and fire protection should be used (the impact fees previously collected for the water system are committed to current projects), as should any grant funds that have already been committed to a project listed in the CIP. Other reserves may be used if the city determines that doing so leaves sufficient cash on hand.

STEP 5 – Split Costs between Correcting Deficiencies and Serving Growth. This step, which flows from Step 3, will be based on the project descriptions in the CIP and the buildout analysis. It is an easy step for improvements that may be funded 100% by impact fees. For almost all projects in the current CIP, however, the findings of the buildout analysis must be used to split costs between correcting deficiencies and serving growth.

STEP 6 – Split Costs between Residential and Commercial. The buildout analysis provides a basis for calculating both the total and per unit costs that may be funded by impact

fees. Before charging impact fees, however, costs must be allocated between (and possibly even among, see Step 7) uses and converted to unit costs. The most practical units are dwelling units and square feet of building area. But what part of the demand for a particular facility is generated by the city's homes and what part by its businesses, industries, and institutions? The answer is not the same for every facility. Each service area report uses an appropriate split.

STEP 7 – Split Costs among Types of Residential and Commercial. Determining the split between residential and commercial uses is not always sufficient. Different businesses and different types of dwelling units place different demands on some municipal facilities. Again, each service area report explains the necessary splits.

STEP 8 – Allocate Costs by Benefit Area. The results of Steps 5-7 are complicated by the fact that not all improvements serve the entire city. An example from the current CIP is the need for improvements to the existing wastewater lift station. Those improvements will not serve the Southeast Residential Area, where the developer will install a separate lift station. The number of dwelling units that will be served by that new lift station must be deducted from the total anticipated growth before trial impact wastewater fees are calculated. It may be necessary to identify benefit areas that are not used in these service area reports in future amendments to the CIP.

STEP 9 – Calculate Trial Impact Fees.

Finally! Once improvements have been identified and categorized; costs have been split in the necessary ways; and benefit areas have been identified and accounted for, trial impact fees pop out of the worksheet.