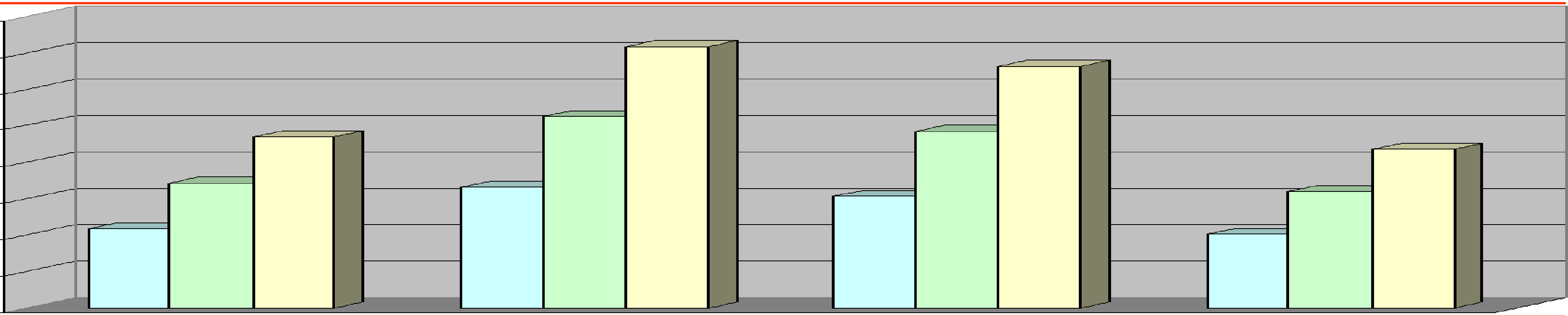
Impact Fee Methodology: From Principles to Practice



2017 Growth & Infrastructure Consortium, Sarasota, FL

Clancy Mullen, Duncan Associates, Austin, TX

Session Overview

- Introductory Presentation
  - Minimum Standards for Valid Methodologies
  - Basic Types of Methodologies
  - Questionable Methodologies
- Panel Discussion
  - Clancy Mullen, Duncan Associates, Austin TX
  - Carson Bise, TischlerBise, Bethesda MD
  - Bob Spencer, Urban Economics, Oakland CA
  - Susan Schoettle, Attorney, Sarasota FL

Legal Principles

- Impact fees should not exceed the cost of needed facilities
- Fees should be proportional to the demand generated
- New development should not be required to pay for a higher **level of service** than existing development
  - Impact fees should not be used to pay for “sins of the past.”
- New development should not have to pay for the same **level of service** both through impact fees and other taxes or fees
  - New development should not be “double-charged.”

Key Concept: Existing Level of Service

- Needed if existing/new development share same facilities (almost always the case)
- Often quantified as a physical ratio, but not essential
  - Example: Park acres per 1,000 population
- Ultimately converted to a monetary ratio
  - Example: Dollars per capita
- Objective: Ensure new development does not pay more per unit than existing development

What Distinguishes Methodologies?

- Basic impact fee methodology:

  Cost per service unit*

  – Revenue credit per service unit

  = Net cost per service unit

  x Service units per development unit

  = Fee per development unit

- **Cost per Service Unit** is focus of session
  - Methodology type hinges on how its calculated
  - Credit and demand schedule approaches may vary

* service unit is common measure of demand/usage

Two Basic Methodologies

- **Standards-Based** (aka "Consumption-Based" or "Buy-In")
  - Simple, system-wide LOS ratio
    - e.g., 10 park acres/1,000 population; VMC/VMT ratio = 1.00
  - Total cost ÷ capacity = cost per service unit
- **Plan-Based** (aka "Improvements-Driven")
  - Geographic or facility-specific LOS measure
    - e.g., "all road segments shall function at LOS D"
  - Long-range plan identifies cost to serve growth over planning horizon
  - Planned cost ÷ growth = cost per service unit
- Combinations:
  - Standard calculation, but identify improvements to fund with master plan
  - Do both calculations, charge plan-based fee only if lower
  - Different calculations for different system components
    - e.g., water treatment plant standard-based, distribution system plan-based

CIP-Based Fees

- Plan-based fees based on CIP list
  - Start with list of projects planned over next 5 to 10 years
  - Divide planned costs by growth over same period
  - Equals cost per service unit
- What's wrong with this?
  - Lacks a master plan to establish nexus of costs to growth
    - Costs over the time period not directly attributable to growth over the period
  - No identification of existing LOS or deficiencies
    - Specific deficiencies for plan-based
    - System-wide deficiency for standards-based

Plan-Based Average Approach

- The concept is that existing and new development both benefit from the improvements
  - Planned costs ÷ future (existing + new) service units = cost per service unit
- What's wrong with this?
  - If no special benefit to new development, what's the basis for fee?
  - No existing LOS analysis (needed to ensure no deficiencies)
  - If jurisdiction has cash on hand to pay the deficiency cost up front, that would equalize levels of service
  - But if the deficiency is paid for over time, new development will pay more than existing development for same future LOS unless there is a revenue credit

If We Have Time…

- Service Areas
  - Needs to be consistent with the area that is impacted and benefits
- Facility Components, e.g.:
  - Roads (arterials only?, include ROW?)
  - Water (treatment plant only?)
- Interesting Case Study in Tennessee
  - Small area road fee to upgrade existing substandard collectors

Summary

- Importance of Existing LOS Analysis
  - Needed regardless of type of methodology
  - Test: new growth cost per unit should not exceed cost per unit previously paid by or for existing development
  - Plan-based fee needs master plan (CIP list not sufficient)
  - Dividing build-out costs by build-out units is no substitute for existing LOS analysis

Questions for Panel

- What are the legal principles for methodologies?
- Do you always need an existing LOS analysis?
  - inventory of existing facilities, and/or
  - identification of existing deficiencies
- Does a plan-based fee require a master plan?
- Are there other valid methodologies?