



P. O. Box 723 Yarmouth, Maine 04096
 (207) 749-5217 bmayber1@maine.rr.com

May 3, 2017

JoAnna Arendarczyk
 Nottingham Land Use Clerk
 P.O. Box 114
 Nottingham, NH 03290

Re: Fee Alternatives Based on New Capital Projects Only

Dear JoAnna:

This letter is to review the option of basing Nottingham impact fees solely on the cost of new (future) capital projects, excluding replacement costs of existing facilities. Charlene Anderson posed a related question that used recreation as an example, where the Town's historic investment has been very limited, and where the Marston property will be the focus of future recreation capital expenditures. So the essential question is: what is the effect of basing the impact fee solely on new (future) capital projects?

Recreation Impact Fee

For the recreation fee, the recommended method was to use the Marston plan for capital expenditures, plus the estimated replacement cost of existing facilities, as the cost basis, and allocate the total to a future projected service population. Past as well as future recreation investment will be of proportionate benefit to new development. If we use the model in the report to allocate only the projected costs for the Marston improvements as they are currently projected, the fee amounts drop by about 35% from the fee options calculated in the report to the amounts shown below:

Facility Investment (Marston Only)	\$720,000			
Projection Year for Facility Benefits (Range)	8 to 18 year horizon	2025	2030	2035
Projected Service Population	Population benefiting	5,599	5,900	6,238
Cost of Marston Property Phase 1 Only	Per Capita in Service Year:	\$129	\$122	\$115
Structure Type	Avg Household Size 2015 Est.	Impact Fee Per Dwelling Unit		
Single Family Detached	2.66	\$343	\$325	\$306
Attached and Two or More Family	2.32	\$299	\$283	\$267
Manufactured Housing	2.52	\$325	\$307	\$290

The Marston property improvements cannot be allocated solely to new development, because the benefits of the new facilities extend to all residents, not just to those in new homes.

Fire Department Impact Fee

In an earlier letter I reviewed the effect of excluding the capital value of fire trucks and major apparatus from the fee basis, even though there will be major future expenditures required to replacement and improvement of that equipment to adequately serve new development and existing residents. Note here that the Fire Station construction was relatively recent, but is not a new (future) capital project. But we based part of the fee on the cost to construct the building because it is assumed that it will be adequate for a larger future population that will benefit from the facility.

Under the proposed new impact fee schedule for Nottingham, a single family detached home would be assessed a fee of \$800 per unit and commercial uses at \$0.35 per square foot. If we were to remove capital equipment (major vehicles/apparatus) from the cost basis, the fee would drop to \$344 per single family home (-57%) and \$0.16 per square foot (-54%) for commercial uses.

Under this approach, the Town would recover only a proportionate share of the cost to construct the Fire Station, and none of its investment in major capital equipment. The case for including capital equipment within the fee is explained more fully in the March 31, 2017 letter

School Impact Fee

The only new facility currently under consideration for the Nottingham School is the construction of a Kindergarten building. If the fee basis were include only the cost of providing Kindergarten space, rather than the total cost of K-8 facilities, the fee basis would extremely small, and the fee may not be worth administering.

Construction Cost Estimate:	\$ 475,000	(3,600 sq. ft. – 3 classrooms)
Capacity of Space:	60	Kindergarten pupils
Cost Per Kindergarten Pupil:	\$ 7,917	
Less State Building Aid:	n/a	Assumed to be not available
Kindergarten Pupils/SF Home:	0.0273	(2016 tabulation for Nottingham)
Avg Cost per Single Family Home:	\$ 216	

The related impact fee is very low under these assumptions because Kindergarten enrollment represents only about 8% of total K-8 enrollment, and the fee would reflect only the amount of space needed for Kindergarten classrooms, exclusive of any core facility space in the main building.

Note that one effect of constructing the Kindergarten building would be to free up some classroom capacity within the existing school, thus providing overall expansion of total K-8 capacity as reflected in the draft impact fee schedule.

Summary

The difference in the approaches using based on new facilities only vs. capturing part of the value of existing facilities reflects two concepts of accounting for impacts: marginal vs. average costs. The marginal cost view is that impacts occur only when a new or expanded facility is to be provided in the future. The average cost approach reflects the assumption that total facility costs should be allocated proportionately across the entire demand base that derives a benefit from the facility so that the total cost of improvements is recovered.

For this reason, RSA 674:21, V provides that impact fee may include the recoupment of past investments of benefit to new development. If it did not, the Town could not assess impact fees for past investments such as the construction of the Fire Station (now an “existing” facility).

The limitation of the marginal approach is that it never accounts for the full cost of providing capital improvements on a per unit basis. The indicated cost of capital facilities per unit is much lower under a marginal approach because the cost to serve new development is being subsidized by the prior investments funded by existing development.

BCM Planning, LLC does not recommend the marginal approach as a basis for either impact fee calculations or fiscal impact analysis.

The Town is of course free to select any reasonable method to assess an impact fee, including the application of across-the-board discounts of the calculated fees. The final assessments or discounts should be applied proportionately to all types of new development, and that the basis of assessment must remain consistent with the standards expressed in the Town’s impact fee ordinance provisions.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce C. Mayberry". The signature is fluid and cursive, written over a white background.

Bruce C. Mayberry, Principal
BCM Planning, LLC