



Agenda

DATE 1/7/14 TIME 1:06pm

SERVED BY Reed Liming

RECEIVED BY [Signature]

Capital Improvements Advisory Committee

Thursday, January 16, 2014

3:00 p.m.

City Hall, 200 Lincoln Avenue, 1st Floor

City Council Chambers

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES

Meeting of December 12, 2013

5. DISCUSSION AND ACTION ITEMS
 - A. Impact Fee Policy Memorandum (Clancy Mullen, Duncan Associates)
 - B. Updating the City's Utility Expansion Charges for Water and Wastewater

6. INFORMATION ITEMS

A. Quarterly Financial Summary & Permit Report (October-December, 2013)

7. MATTERS FROM THE CHAIR / COMMITTEE / STAFF
8. MATTERS FROM THE FLOOR
9. NEXT QUARTERLY MEETING DATE (Thursday, April 10, 2014, 3:00 p.m.)
10. ADJOURN

Persons with disabilities in need of accommodations, contact the City Clerk's office at (505) 955-6520, five (5) working days prior to meeting date.

For questions regarding this agenda, please contact the Long Range Planning Division at 955-6610.

MINUTES OF THE
CITY OF SANTA FE
CAPITAL IMPROVEMENTS ADVISORY COMMITTEE

January 16, 2014

1. CALL TO ORDER

A regular meeting of the City of Santa Fe Capital Improvements Advisory Committee was called to order by Karen Walker, Chair at 3:10 p.m. on this date in the City Council Chambers, 1st Floor, City Hall, Santa Fe, New Mexico.

2. ROLL CALL

Roll call indicated a quorum was present for conducting official business as follows:

MEMBERS PRESENT:

Karen Walker, Chair
Jack Hiatt [arriving later]
Rick Martinez
Maria Higuera Pope
Neva Van Peski
Marg Veneklasen

MEMBERS ABSENT:

Michael Chapman, Vice Chair
Edmundo Lucero
Kim Shanahan

STAFF PRESENT:

Reed Liming, Long Range Planning Division Director
Richard McPherson, Long Range Planning Division

OTHERS PRESENT:

Clancy Mullen, Duncan Associates
Jo Ann G. Valdez, Stenographer

3. APPROVAL OF AGENDA

Ms. Pope moved to approve the Agenda as published. Ms. Veneklasen seconded the motion. The motion passed unanimously by voice vote.

4. APPROVAL OF MINUTES:

- **Meeting of December 12, 2013**

The following changes were made to the Minutes of the December 12, 2013 meeting:

Page 1, under Members Present: Jack Hiatt was present

Page 5, last paragraph, 3rd paragraph was changed to read: *"In valuations, the City is **hovering** at 67% of the maximum year of 2005-2006."*

Ms. Pope moved to approve the Minutes of the December 12, 2013 meeting as amended. Ms. Van Peski seconded the motion. The motion passed unanimously by voice vote.

5. A. Impact Fee Policy Memorandum (Clancy Mullen, Duncan Associates)

[Copies of the Impact Fee Policy Memorandum from Clancy Mullen of Duncan Associates were distributed in the Committee Members' packets. A copy is hereby incorporated to these Minutes as Exhibit "5A".]

Duncan Associates have been retained by the City of Santa Fe to update the City's existing impact fees for roads, parks, fire and police, and to evaluate the possibility of new water and wastewater impact fees to supplement or replace the City's water and wastewater utility expansion charges. The Memorandum outlines the legal framework under the New Mexico Development Fees Act and addresses policy issues involved in the impact fee update relating to (1) impact fee suspensions/reductions, 2) services areas 3) evaluation of alternative fee methodologies, and 4) the relation of impact fees to utility expansion charges.

Background

The last comprehensive update of the City's impact fees was based on a 2008 study that was adopted by the City Council on January 9, 2008. The fees were adopted at 60% of the calculated amounts. The current fees that have been effective for the last

five years are summarized in Table 1. Impact fees for residential permits were suspended for two years, effective January 22, 2012.

Mr. Liming noted that the sunset date for the waiver of the residential Impact Fees is January 22, 2014.

The Committee Members reviewed the information in the Memorandum. Please see "Exhibit 5A" for the specifics of this presentation.

The Committee gave the following direction to Mr. Mullen moving forward with the Impact Fees update:

1. **Service Area** – Stay with one service area that includes the entire city.
2. **Methodology for Calculating Impact Fees** – continue using the standards-based (existing level of service) methodology in calculating impact fees.
3. **Fee Schedule** – Collapse the existing fee schedule into fewer categories (provide a list of land uses within each commercial category to help clarify for applicant and staff examples of uses for impact fee assessment and collection purposes). Mr. Mullen will provide an updated detailed impact fee schedule, such as the city's current one, and then show an alternative with fewer categories and more generalized fees. He will also provide an analysis of what the difference would have been in fee collections over the past two years between the two fee schedules.
4. **Single-Family Detached Fees by Unit Size** – Reduce the largest size of category in the fee schedule from "Greater than 4,000 square feet" to "Greater than 3,000 square feet". (Also provide a unified Single-Family Detached Unit" fee as part of a potential alternative collapsed fee schedule.)

B. Updating the City's Utility Expansion Charges for Water and Wastewater

Mr. Mullen said the City does not currently assess impact fees for water and wastewater facilities, but instead assesses Utility Expansion Charges (UECs). UECs are similar to impact fees, but are adopted under authority of the *Development Fees Act* that regulates impact fees.

(Copies of the Current Utility Expansion Charge Schedule were included in Exhibit "5A".)

Mr. Mullen said it appears that the water and wastewater UEC's are designed to serve much the same purpose as impact fees – to pay for growth-related capacity improvements. Consequently, it would not be appropriate to charge separate water and wastewater impact fees, while continuing to charge the UECs. The City can charge new customers either UECs or impact fees, but not both.

Duncan and Associates offered the following recommendations for the City's consideration:

- 1) First, base the fees on updated studies. The current UEC's are based on studies that are at least 10 years old.
- 2) Second, put the fees in a separate account from the operating fund and spend the proceeds only on capacity-expanding improvements.

There was agreement of the Committee that it would be a good idea to base the fees on updated studies; and putting the fees in a separate account from the Operating Fund and spend the proceeds only on capacity-expanding improvements.

6. INFORMATION ITEMS

A. Quarterly Financial Summary & Permit Report (October-December, 2013)

[Copies of the Quarterly Financial Summary & Permit Report {*Exhibit 6A*} were distributed in the members' packets.]

Mr. Liming briefly reviewed Exhibit 6A noting that the City brought in \$35,619 in impact fees during the second quarter of the year.

Mr. Liming noted that he included a chart on the "Waived Impact Fees". The City would have brought in \$67,488.00 in impact fees in the 4th quarter of 2013 (October – December 2013).

7. MATTERS FROM THE CHAIR / COMMITTEE / STAFF

There were no matters from the Chair/Committee/Staff.

8. MATTERS FROM THE FLOOR

There were no matters from the Floor.

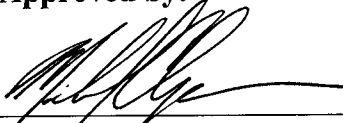
9. NEXT QUARTERLY MEETING DATE:

The next quarterly meeting is scheduled for April 10, 2014 at 3:00 p.m.

10. ADJOURNMENT

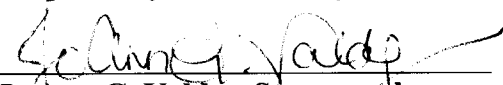
Having no further business to discuss, Ms. Veneklasen moved to adjourn the meeting, and seconded by Ms. Pope, the meeting adjourned at 4:45 p.m.

Approved by:



Karen Walker, Chair

Respectfully submitted by:



JoAnn G. Valdez, Stenographer

MICHAEL CHAPMAN
VICE CHAIR

EXHIBIT

tabbies

5A

Impact Fee Policy

Memorandum

prepared for the

City of Santa Fe, New Mexico

duncan | associates

January 2014

Exhibits
for
CIAA - 1/16/14
Committee Mtg

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EXECUTIVE SUMMARY

Duncan Associates has been retained by the City of Santa Fe to update the City's existing impact fees for roads, parks, fire and police, and to evaluate the possibility of new water and wastewater impact fees to supplement or replace the City's water and wastewater utility expansion charges. This report outlines the legal framework under the New Mexico Development Fees Act and addresses policy issues involved in the impact fee update relating to (1) impact fee suspensions/reductions, (2) service areas, (3) evaluation of alternative fee methodologies, and (4) the relation of impact fees to utility expansion charges.

Background

The last comprehensive update of the City's impact fees was based on a 2008 study that was adopted by the City Council on January 9, 2008.¹ The fees were adopted at 60% of the calculated amounts. The current fees that have been effective for the last five years are summarized in Table 1 on the following page. Impact fees for residential uses were suspended for two years, effective January 22, 2012.

In addition to impact fees, the City assesses Utility Expansion Charges (UECs) for water and wastewater. UECs are similar to impact fees, but are adopted under authority provided in state law to assess charges for water and wastewater facilities, rather than under the authority of the *Development Fees Act* that regulates impact fees. UECs are discussed in the final section of this report.

Summary of Recommendations

The consultant's major policy recommendations are summarized as follows.

Suspensions/Reductions. Suspending impact fees only for residential development could potentially result in nonresidential developments failing to receive their proportionate benefit from the improvements they are paying for through their fees. We recommend that the City demonstrate that it has compensated for the lost revenue, either by placing an equivalent amount of non-impact fee money in the impact fee accounts or preparing an analysis of non-impact fee revenue spent on growth-related improvements.

Service Areas. Continue to use the urban area as a single service area for all of the impact fees. Multiple service areas will limit the City's ability to accumulate sufficient funds to make improvements and tend to complicate impact fee calculation and administration. Impact fees differentials by area are unlikely to be large enough to have any significant effect on the location of development, if that is an objective. Albuquerque's experiment with multiple service areas and differential fees produced no clear evidence of its effectiveness, but did divide the city, antagonize the development community and foster the unsupported belief that impact fee differentials, whether within communities or between communities, are a decisive factor in determining the pace and location of development.

¹ Duncan Associates, *Impact Fee Capital Improvements Plan and Land Use Assumptions for Roads, Parks, Fire and Police*, approved by the Santa Fe City Council on January 9, 2008.

Table 1. Current Impact Fee Schedule

Land Use Type	Unit	Roads	Parks	Fire	Police	Total
Single Family Detached Units (heated living area):						
(0 to 1,500 sq. ft.)	Dwelling	\$1,850	\$1,111	\$125	\$44	\$3,130
(1,501 to 2,000 sq. ft.)	Dwelling	\$2,100	\$1,214	\$136	\$48	\$3,498
(2,001 to 2,500 sq. ft.)	Dwelling	\$2,183	\$1,328	\$150	\$53	\$3,714
(2,501 to 3,000 sq. ft.)	Dwelling	\$2,248	\$1,379	\$155	\$55	\$3,837
(3,001 to 3,500 sq. ft.)	Dwelling	\$2,309	\$1,418	\$159	\$56	\$3,942
(3,501 to 4,000 sq. ft.)	Dwelling	\$2,359	\$1,444	\$163	\$58	\$4,024
(more than 4,000 sq. ft.)	Dwelling	\$2,424	\$1,495	\$169	\$59	\$4,147
Other (Apts., Condos, S.F. Attached, Guest H.)	Dwelling	\$1,554	\$971	\$110	\$39	\$2,674
Hotel/Motel	Room	\$1,203	\$0	\$82	\$29	\$1,314
Retail/Commercial (gross floor area)						
Shopping Center/General Retail	1000 sq. ft	\$4,597	\$0	\$221	\$78	\$4,896
Auto Sales/Service	1000 sq. ft	\$2,180	\$0	\$221	\$78	\$2,479
Bank	1000 sq. ft	\$4,948	\$0	\$221	\$78	\$5,247
Convenience Store w/Gas Sales	1000 sq. ft	\$8,778	\$0	\$221	\$78	\$9,077
Health Club, Recreational	1000 sq. ft	\$4,394	\$0	\$221	\$78	\$4,693
Movie Theater	1000 sq. ft	\$10,412	\$0	\$221	\$78	\$10,711
Restaurant, Sit-Down	1000 sq. ft	\$5,083	\$0	\$221	\$78	\$5,382
Restaurant, Fast Food	1000 sq. ft	\$11,064	\$0	\$221	\$78	\$11,363
Office/Institutional (gross floor area)						
Office, General	1000 sq. ft	\$2,429	\$0	\$124	\$44	\$2,597
Medical Building	1000 sq. ft	\$3,903	\$0	\$124	\$44	\$4,071
Nursing Home	1000 sq. ft	\$1,354	\$0	\$124	\$44	\$1,522
Church	1000 sq. ft	\$1,521	\$0	\$124	\$44	\$1,689
Day Care Center	1000 sq. ft	\$3,202	\$0	\$124	\$44	\$3,370
Elementary/Sec. School	1000 sq. ft	\$586	\$0	\$124	\$44	\$754
Industrial/Warehousing (gross floor area)						
Industrial, Manufacturing	1000 sq. ft	\$1,610	\$0	\$74	\$26	\$1,710
Warehouse	1000 sq. ft	\$1,147	\$0	\$47	\$16	\$1,210
Mini-Warehouse	1000 sq. ft	\$417	\$0	\$47	\$16	\$480

Source: Santa Fe City Code, Sec. 14-8.14/E(a).

Methodology. Continue to use the standards-based methodology for all of the impact fees. Plan-based methodologies require an up-to-date, long-range master plan to establish the nexus between projected growth and the need for improvements. The standards-based approach gives the City flexibility to modify its Capital Improvements Plan to respond to changing conditions without triggering the need for an impact fee update.

Financing Costs. Including financing costs in the impact fee calculations is most appropriate for types of facilities where virtually all capacity-expanding improvements are financed with bonds issues. If financing costs are to be included, the "real interest cost" approach described in this report is recommended. With this approach, financing costs tend to be about 12% of the original capital cost.

Single-Family Fees by Unit Size. A review of regional and national data reveals that average household size tends to be relatively stable for units larger than 3,000 square feet. It is recommended that the largest size category be reduced from greater than 4,000 square feet to greater than 3,000 square feet. The update could also calculate a flat rate per dwelling unit if the City wants that option.

Nonresidential Land Use Categories. It is recommended that the current 18 nonresidential land use categories in the impact fee schedules be reduced to six: retail/commercial, office, public/institutional, industrial, warehouse and mini-warehouse. This approach recognizes that commercial land uses often change, avoids extremely high fees for a small number of land uses (e.g., restaurants, convenience stores, medical offices), eliminates most impact fee charges for change of use, thereby encouraging reuse of existing buildings, and simplifies impact fee administration.

Utility Expansion Fees. The water and wastewater UECs serve a function similar to impact fees; consequently the City should not charge both. Regardless of whether they are converted to impact fees, the fees should be updated based on more current data and should be earmarked to be spent only on capacity-expanding improvements.

LEGAL FRAMEWORK

Impact fees are a way for local governments to require new developments to pay a proportionate share of the infrastructure costs they impose on the community. In contrast to traditional "negotiated" developer exactions, impact fees are charges that are assessed on new development using a standard formula based on objective characteristics, such as the number and type of dwelling units constructed. The fees are one-time, up-front charges, with the payment usually made at the time of building permit issuance. Impact fees require each new development project to pay its pro-rata share of the cost of new capital facilities required to serve that development.

Impact fees were pioneered by local governments in the absence of explicit state enabling legislation. Consequently, such fees were originally defended as an exercise of local government's broad "police power" to protect the health, safety and welfare of the community. The courts gradually developed guidelines for constitutionally-valid impact fees, based on a "rational nexus" that must exist between the regulatory fee or exaction and the activity that is being regulated. To date, 28 states have adopted impact fee enabling legislation. These acts have tended to embody the constitutional standards that have been developed by the courts. Impact fees in New Mexico are governed by the New Mexico *Development Fees Act* (Sec. 5-8-1, et. seq., New Mexico Revised Statutes).

Service Area

The New Mexico *Development Fees Act* requires that Land Use Assumptions and Capital Improvements Plans must be prepared for each "service area." A service area is a geographic area within which a set of capital facilities provides roughly equivalent benefit to all development located within the area. In general, impact fees collected within a service area will be spent within the same service area, although there may be instances where the facility that serves development in the service area is actually physically located outside the service area.

Capital Improvements Plan

According to the *Development Fees Act*, impact fees can only be spent on improvements identified in the Capital Improvements Plan. The Capital Improvements Plan required by the *Development Fees Act* is somewhat different from the traditional capital improvements program. Like a traditional capital improvements program, the Capital Improvements Plan required by the *Development Fees Act* must include a list of capital projects, their costs and anticipated sources of funding. However, the similarity stops there. Elements required in the Capital Improvements Plan but not found in a typical capital improvements program include an inventory of existing facilities, including an analysis of current usage and capacity of such facilities; a determination of the portion of the cost of planned improvements, as well as existing improvements with remaining excess capacity, that is attributable to growth; an equivalency table that estimates the service demand generated by different land use types; and the projected growth in service demand based on the recommended Land Use Assumptions over a period not to exceed ten years. In essence, the impact fee Capital Improvements Plan is the impact fee study.

Land Use Assumptions

An impact fee update must include land use assumptions (growth projections) for each service area. The *Development Fees Act* defines land use assumptions as “projections of changes in land uses, densities, intensities and population in the service area over at least a five-year period.” Since the Capital Improvements Plan that must be prepared for each service area must identify improvement needs for a period not to exceed ten years, a 5-to-10-year time-frame would seem to be the most appropriate for an impact fee study.

Level of Service

The Act requires “an analysis of the total capacity [and] the level of current usage” of existing facilities, a relationship that is often referred to as “level of service” (although this term does not appear in the Act). The impact fee principle that is being referred to here is that new development should not be charged for a higher level of service than is being provided to existing development. If facilities are currently deficient with respect to the capacity standard that is being used to calculate the impact fees, a credit should be provided to new development to acknowledge tax or rate payments that will be made by new development and used to remedy the deficiency. In general, the necessity of providing a deficiency credit is avoided by basing the impact fees on the current level of service.

Service Unit

Both demand and capacity need to be expressed in terms of the same “service units”— defined by the Act as “a standardized measure of consumption, use, generation or discharge.” The service unit for parks, for example, might be acres of park land. In order to translate land use projections into additional demands for service, the Capital Improvements Plan must include “an equivalency or conversion table establishing the ratio of a service unit to various types of land uses, including residential, commercial, and industrial.” Such a table, which relates various land use categories and the service demands associated with them, is the basis for the fee schedule. The equivalency table for road impact fees, for example, would specify the typical travel demand generated by a single-family unit, 1,000 square feet of office space, etc.

Fee Schedule

The fee schedule brings together all of the fee calculation components. These include the land use categories, service demands associated with a unit of development, cost per service unit and revenue credits. Although the Act does not specifically mention credits for other revenue contributions (e.g., gross receipts taxes used to pay debt service on the same facility), established case law clearly indicates that double-charging must be avoided and that such contributions must be credited in the impact fee formulation.

Updates

The *Development Fees Act* requires that the land use assumptions and capital improvements plan be updated within five years from the date that the last capital improvements plan was adopted.

SUSPENSIONS/REDUCTIONS

The most fundamental characteristic of an impact fee is that, unlike a tax, the amount charged is proportional to the cost to provide a particular service. The *Development Fees Act* contains a number of provisions that ensure that impact fees in New Mexico have this characteristic. The Act defines the concept of a "service unit," provides guidance on how to calculate the maximum fee per service unit, and requires that the fees be based on an equivalency table. A service unit is a standardized measure of demand (for example, the service unit for the City's road impact fees is daily vehicle-miles of travel on the major road system). The impact fee study calculates the maximum fee per service unit. The impact fee study also develops an equivalency table that determines the number of service units that are generated by a unit of development for various land use types. Multiplying the maximum fee per service unit by the service units generated per unit for various land use categories results in the maximum fee schedule.

The *Development Fees Act* does not mandate that the maximum fees calculated in the impact fee study be adopted at 100%. Instead, it requires that the fee per service unit "shall not exceed the cost to pay for a proportionate share of the cost of system improvements." An issue that is not explicitly addressed in the Act is whether the City can charge impact fees based on different percentages of the maximum fees, as long as none of the percentages exceed 100%. Such an approach, however, would result in fees that are not proportional to the impact of the development. In the implementation of the 2007 study, the City adopted all of the fees at 60% of the maximum fees calculated in the study for all land use categories. This approach to adopting reduced fees ensures that the fees do not exceed maximum justifiable amounts, while also maintaining proportionality among the various land use categories.

Effective January 1, 2012, the City Council suspended all impact fees for residential developments for two years, and is considering extending the suspension for another two years. The purpose of the fee suspension is to stimulate residential construction and boost the local economy. This partial suspension of impact fees to further economic development raises issues of both equity and effectiveness.

The City could clearly suspend or repeal impact fees for all land uses, but doing it selectively for only residential uses raises equity issues. New nonresidential development will continue to pay fees, but without the revenue from new residential uses it is unclear how the facilities required to maintain the level of service that nonresidential uses are paying for will be provided. The *Development Fees Act* appears to prohibit waivers or fee reductions, except for affordable housing, unless the City uses other funds to make up for the lost impact fee revenue. It is likely that the City finances growth-related improvements with a mix of both impact fee and other revenue. Some of this other revenue could be put into the impact fee account to clearly compensate for the revenue lost due to the suspension. Alternatively, the City could provide analysis to show that it has appropriated sufficient non-impact fee revenue to fund growth related improvements to offset the lost impact fee revenue.

SERVICE AREAS

The New Mexico *Development Fees Act* defines “service area” as

the area within the corporate boundaries or extraterritorial jurisdiction of a municipality or the boundaries of a county to be served by the capital improvements or facility expansions specified in the capital improvements plan designated on the basis of sound planning and engineering standards.

The service area for the City’s current impact fees is the Santa Fe Urban Area (see Figure 1). The Urban Area is the geographic area that includes the City’s incorporated area as well as some additional unincorporated area that is likely to be annexed into the city at some time in the future. In the future, comparisons between the “city” and “urban area” may be unnecessary as the city annexes most of the urban area. However, the Agua Fria Traditional Historic Community, containing 2,800 residents and 1,134 housing units according to the 2010 Census, is located within the urban area and is expected to remain unincorporated. City impact fees are charged only within the corporate limits, since the City does not have building permit authority and thus cannot collect impact fees in unincorporated areas within the Urban Area.

The City currently has a single service area for all of the fees. In our view, multiple service areas should be avoided where possible. Multiple service areas limit the City’s ability to accumulate sufficient funds to make improvements and tend to complicate impact fee calculation and administration. Impact fees differentials by area are unlikely to be large enough to have any significant effect on the location of development, if that is an objective. Albuquerque’s experiment with multiple service areas and differential fees produced no clear evidence of its effectiveness, but did divide the city, antagonize the development community and foster the unsupported belief that impact fee differentials, whether within communities or between communities, are a decisive factor in determining the pace and location of development.

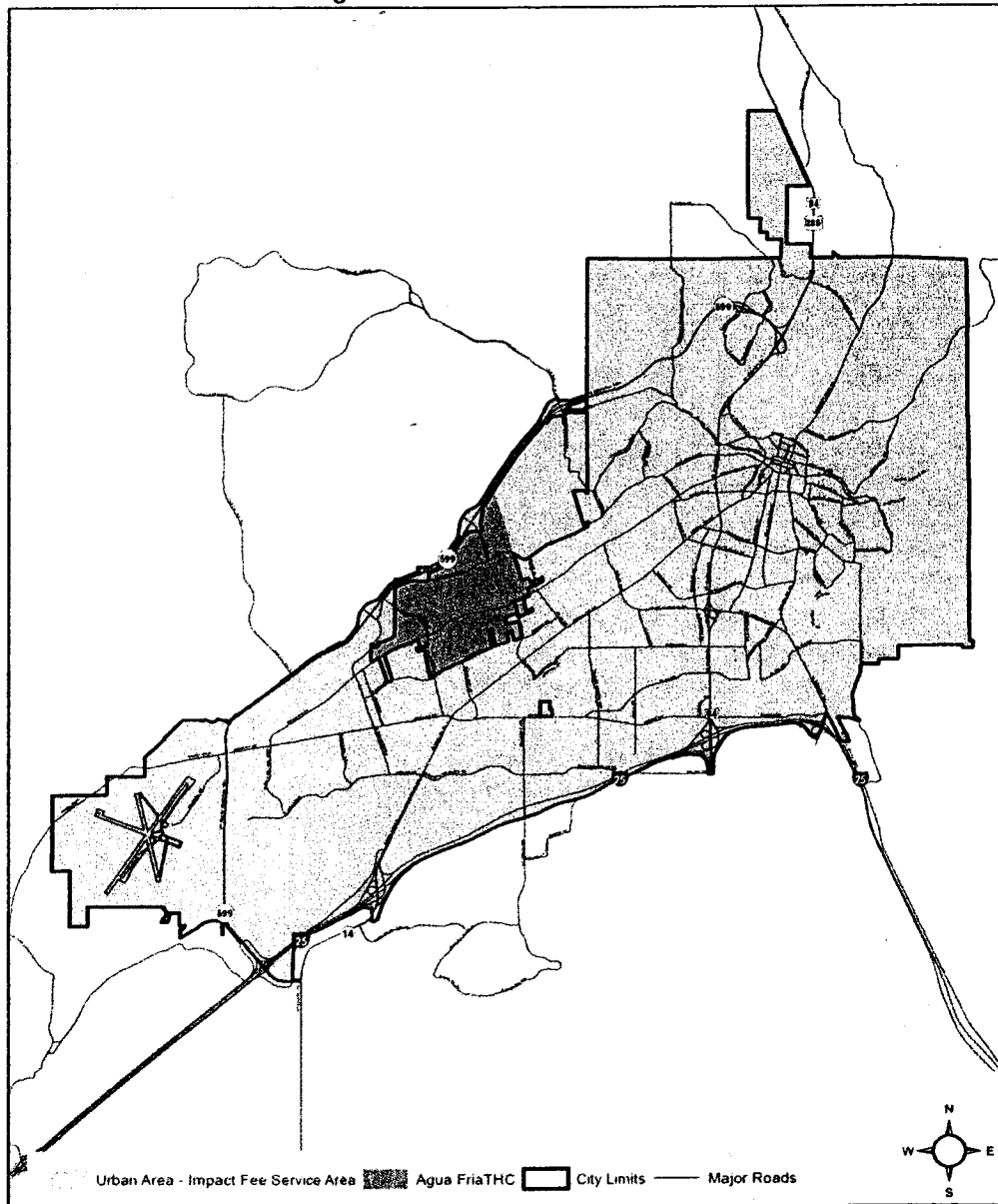
Roads

The City’s road impact fees fund improvements to the major roadway system, defined as arterial and collector roadways, excluding I-25. Because the major roadway system facilitates travel throughout the community, a single service area continues to be appropriate for road impact fees.

Parks

The City’s park impact fees fund improvements to the system of recreational facilities, including regional parks, neighborhood parks and trails. Regional parks and trails tend to serve relatively large areas, while neighborhood parks have more localized benefit. As long as the City makes a good faith effort to use park impact fees to fund neighborhood park improvements in areas that are experiencing residential development, a single service area will continue to be appropriate for park impact fees.

Figure 1. Santa Fe Urban Area



Fire and Police

A single service area continues to be appropriate for fire and police facilities. Police facilities tend to be centralized, and police protection is provided throughout the city from roving patrol cars. While fire facilities are by necessity more decentralized, responding units are not always located at the nearest station, and units respond to major incidents from all over the city. The City's fire and police facilities and equipment thus form integrated systems, and a single service area is appropriate.

METHODOLOGIES

This section of the memorandum reviews the existing methodologies for all four facility types, identifies potential alternatives and makes recommendations for changes.

There are a variety of methodologies that can be employed to calculate impact fees. Any methodology, however, must comply with the fundamental principle of impact fees, which is that new development should not be charged for a higher level of service than existing development. Impact fees can be based on a higher level of service that currently exists, but if they are based on a higher level of service a funding plan must be put in place to remedy the existing deficiencies and a credit must be provided for the portion of the funding used to remedy the deficiencies that will be generated by new development.

Alternative Methodologies

There are two basic types of impact fee methodologies: "standards-based" and "plan-based." Standards-based methodologies use a generalized, system-wide level of service measure, such as the number of park acres per 1,000 residents. With such a standard, appropriate impact fees can be calculated based on the cost of maintaining the existing level of service without a master plan specifying specific improvements to be constructed. This approach gives the City flexibility to modify its Capital Improvements Plan to respond to changing conditions without triggering the need for an impact fee update.

A plan-based methodology relies on a list of planned capital improvements, and is basically calculated by dividing the cost of needed improvements over a period of time by the anticipated new service units over the same time period. The essential requirement for a plan-based fee is that it must demonstrate the nexus between the cost of the planned improvements and the amount of anticipated development. Some plan-based fees use a master plan to establish this nexus. The master plan approach is generally based on an improvement-specific or geographically-based level of service standard, such as "all major roadways shall operate at LOS D or better," and often results in the identification of existing deficiencies. Other plan-based fees are based on a build-out plan or list of capital improvements that are not based on a master plan. These non-master plan approaches must generally be combined with a standards-based analysis that demonstrates that the plan-based fee does not exceed the existing level of service, in order to establish the nexus between the planned improvements and the amount of development to be served by those improvements.

Current Methodologies

The City's current impact fees are all based on a standards-based methodology, as described below. No changes from the basic methodologies are proposed.

Roads

The standards-based methodology for road impact fees is generally referred to as a "consumption-based" approach. In the standard consumption-based approach, the total cost of a representative set of improvements is divided by the capacity added by those improvements in order to determine an average cost per vehicle-mile of capacity (VMC). This cost per VMC is then multiplied by the vehicle-miles of travel (VMT) generated by a unit of development of a particular land use type to

determine the gross impact fee (i.e., before credits). A variant is the modified consumption-based approach, which uses a system-wide VMC/VMT ratio higher than the 1:1 ratio implicit in the standard approach.

The City's current road impact fees are based on the standard consumption-based methodology. This is a relatively conservative approach, because most roadway systems require a VMC/VMT ratio greater than one to operate effectively, due to the fact that vehicular travel does not always go where excess road capacity is located. Nevertheless, it is a widely-used, reliable approach to the calculation of road impact fees.

Parks

The standards-based methodology is sometimes referred to as "incremental expansion," because it uses the existing level of service to determine the cost required to serve future development. It is based on the reasonable assumption that facilities will need to be expanded proportional to the amount of growth that occurs. This approach is appropriate for facilities that do not have a significant amount of excess capacity to serve future development.

Park impact fees are typically only assessed on residential development, because the need for parks is related to the number of people residing in the community. Some park impact fees use the ratio of park acres to population as the level-of-service measure. However, rather than using population as the service unit for parks, the current fees use Equivalent Dwelling Units (EDUs). A typical single-family home is 1.00 EDU, while the EDUs for other housing types are based on the average household size relative to a typical single-family unit. Using EDUs rather than population has the advantage of taking volatile occupancy rates out of the equation.

While a ratio of acres to population may be a useful level-of-service measure for park planning purposes, it is less appropriate as the basis for impact fee calculation. An acre developed with ball fields represents a much lower capital investment than an acre developed with a community center or a swimming pool. The current park methodology uses the inventory actual improvements and current replacement costs to quantify the capital investment in existing facilities. The existing LOS is defined in terms of capital investment per EDU.

Fire and Police

The current fire and police impact fees are also based on the incremental expansion approach, based on the existing city-wide level of service. The level of service is quantified in terms of the capital investment per service unit. The service unit for fire and police fees is "functional population." A functional person is similar to the concept of a full-time equivalent worker, and represents the equivalent of a person being present at the land use for 24 hours a day. The functional population approach is appropriate for fire and police services, since the demand for such services is strongly related to the number of people present at a land use.

The major alternative to functional population is calls for service. We have compared calls-for-service and functional population ratios from a large number of studies, and found that the average ratios are relatively similar.² The problem with calls-for-service ratios is that they tend to change

² Clancy Mullen, *Fire and Police Demand Multipliers: Calls-for-Service versus Functional Population*, proceedings of the National Impact Fee Roundtable in Arlington, VA, October 5, 2006 (http://growthandinfrastucture.org/proceedings/2006_proceedings/fire%20police%20multipliers.pdf)

over time. In our experience, there are often wild swings in fees for various land uses when the fees are updated.

Possible Modifications

Three potential modifications from the previous methodology are addressed below.

Financing Costs

The request for proposals suggested the inclusion of debt service costs in the updated impact fee calculations. While the use of impact fees to repay debt service is authorized by New Mexico's *Development Fees Act* (as well as by most other state enabling acts), actually including financing and interest costs in the impact fee calculations is not the norm. Perhaps the main reason for this is that including interest costs poses somewhat complicated issues related to the time-value of money. A significant portion of interest costs are compensation for future inflation, which will reduce the value of future principal payments. However, those who pay their impact fees in the first year after fees are updated are imposing no inflation costs, and if the fees are not going to be spent for several years the City could invest the funds and earn enough interest to offset inflation. For future payers, impact fees could be increased annually between comprehensive updates using an inflation index. Consequently, inflation should be removed from interest costs to be paid with impact fees.

We first addressed this issue in 2005 for Collier County, Florida in an update of the corrections impact fee for a new jail that was financed with debt. We researched other impact fee studies and the professional literature and consulted with financial experts. We found the available approaches, which we dubbed the "sum of interest" and "discounted interest" approaches, to be lacking, and came up with what we called the "real interest cost" approach.³ Under this approach, the present value of future debt service payments (both principal and interest) are deflated to current value by the real interest rate, defined as the nominal rate less the recent historical inflation rate. The percent by which the present value of future debt service exceeds the original principal is added to capital costs to represent the real cost of debt financing. We most recently applied this approach to an update of the City of Denton, Texas' water and wastewater fees. In that case, the fees were increased by 12.4% due to the inclusion of interest costs.

Including financing costs in impact fee calculations is most appropriate approach for facility types where all capacity-expanding improvements are funded with debt (most often the case with water and wastewater utilities). Otherwise, qualitative estimates of the percent of new improvements that will be funded by debt issues must be made.

Single-Family Fees by Unit Size

In the 2008 study, average household size by dwelling unit size for single-family units was estimated using (1) census micro data for Santa Fe County and Los Alamos County to determine average household size by bedrooms (normalized for the City of Santa Fe overall average household size), and (2) realtor listings of homes for sale to determine average dwelling unit size by bedrooms. The two data sets were combined by taking the realtor data set and assuming the average household size for the number of bedrooms in the unit (e.g., each 3-bedroom unit was assumed to have the average number of residents for all 3-bedroom units). Finally, linear regression analysis was performed to

³ See paper presented by Clancy Mullen at the 2005 National Impact Fee Roundtable held in Denver, Colorado: <http://growthandinfrastructure.org/proceedings/2005proceedings/interest%20paper.pdf>

develop an equation relating average household size to unit square feet, and the midpoints of the size categories was used as the average household size for each size range.

While the approach used in the original study was reasonable and had the advantage of relying solely on local data, its weakness is that both of the key variables are not in either data set – the census data lacks information on the size of the unit and the realtor data lacks information on the number of persons in the unit. Consequently, the 2008 analysis had to utilize an intervening variable – the number of bedrooms in the unit.

A simpler and more direct approach is to utilize regional or national data from the American Housing Survey, sponsored by the U.S. Department of Housing and Urban Development and conducted by the U.S. Census Bureau. The most recent survey was done in 2011. This survey provides data on the number of residents and the square footage of a sample of individual housing units. Regional data for the Western Census Region, which includes New Mexico, could also be used and shows a very similar pattern. Average household sizes by dwelling unit size from the western U.S. can be converted to Equivalent Dwelling Units (EDUs), with one EDU representing the average number of persons residing in an occupied single-family detached unit. These national and regional EDU multipliers are compared to those used in the 2008 study in Table 2 and are illustrated in Figure 2.

Table 2. Equivalent Dwelling Unit Multipliers

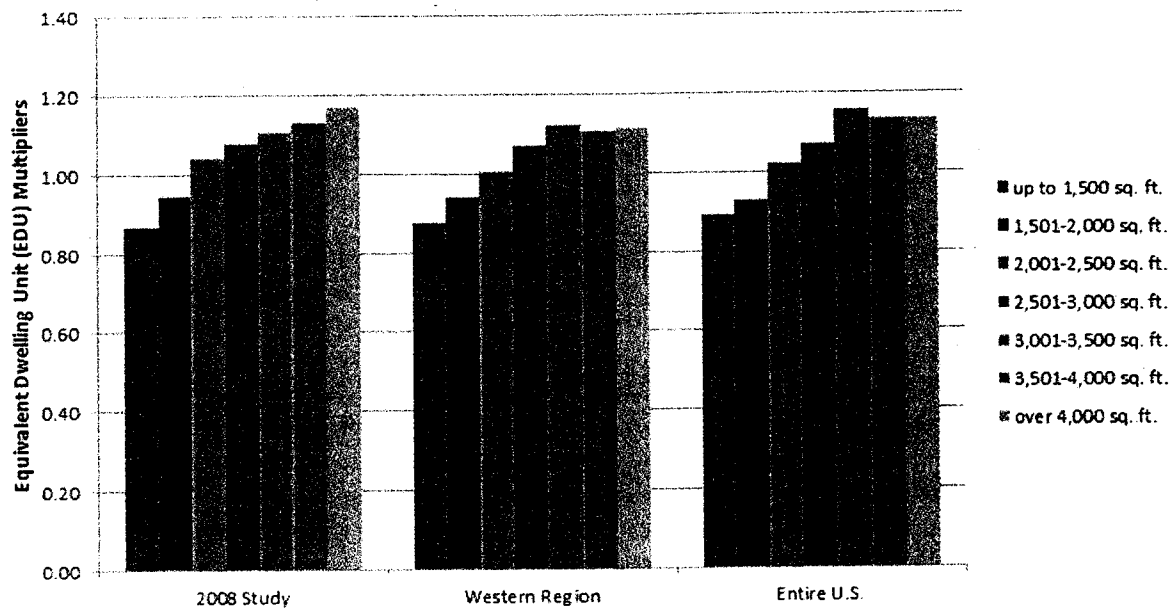
Single-Family Unit Size (Heated Living Area)	2008 Study	Amer. Housing Survey	
		Western Region	Entire U.S.
1,500 sq. ft. or less	0.87	0.89	0.88
1,501-2,000 sq. ft.	0.95	0.93	0.94
2,001-2,500 sq. ft.	1.04	1.02	1.01
2,501-3,000 sq. ft.	1.08	1.07	1.07
3,001-3,500 sq. ft.	1.11	1.16	1.12
3,501-4,000 sq. ft.	1.13	1.13	1.11
4,001 sq. ft. or more	1.17	1.13	1.11
Average, All Units	1.00	1.00	1.00
3,001 sq. ft. or more	n/a	1.14	1.11

Note: EDU multipliers by unit size are ratios of average household size to overall average household size for all units.

Source: 2008 study data from Duncan Associates, *Impact Fee Capital Improvements Plan and Land Use Assumptions for the City of Santa Fe, 2008*; American Housing Survey data for units built 1990 or later from the 2011 *American Housing Survey*.

The national and regional data are consistent with the 2008 study results for units up to 3,500 square feet. However, the national and regional data clearly show that household size tends to plateau at about 3,000 square feet. It is recommended that updated average household sizes by unit size categories be based on American Housing Survey data and that the upper size category include all units larger than 3,000 square feet.

Figure 2. Equivalent Dwelling Unit Multipliers



Land Use Categories

The request for proposals contemplates the inclusion of additional land use subcategories based on local and national trip generation data. We would encourage the City to pursue the opposite approach, and reduce the number of land use categories in the impact fee schedule. In hindsight, the categories we initially prepared for the City in 2003, and updated in 2008, are probably too detailed. In recent years, we have been encouraging clients to simplify their impact fee systems, including reducing the land uses in their fee schedules to fewer, more general, categories. Fewer, broader land use categories are just as defensible from a legal standpoint and offer several advantages, including avoiding extremely high fees for a small number of land uses (e.g., restaurants, convenience stores, medical offices), eliminating most impact fee charges for change of use, thereby encouraging reuse of existing buildings, and simplifying impact fee administration. We most recently applied this approach in our 2012 update of Albuquerque's impact fees.⁴

The major suggested change is to simplify and reduce the number of nonresidential land use categories included in the impact fee schedule. Including many land use categories seems on the face of it to be more accurate and to make it easier to classify proposed uses. After all, if a use is specifically listed, that should make it easier to assess fees when that particular use is proposed. The problem is that it is impossible to list all potential uses, and including many land use categories does not necessarily improve accuracy. For example, while the Institute of Transportation Engineers (ITE) *Trip Generation* manual provides trip rates for many categories, the land uses are often not well defined, many of the rates are based on very small samples, and data on pass-by rates and average trip lengths for most of those uses are not readily available. In addition, short-term accuracy can end up overcharging for long-term impacts, because commercial uses change frequently and impact fees are not refunded when a use is changed to one that generates less impact.

⁴ Duncan Associates, *Impact Fee Land Use Assumptions and Capital Improvements Plan, 2012-2022, prepared for the City of Albuquerque, New Mexico*, September 2012 (<https://www.cabq.gov/council/documents/OC127.pdf>).

The alternative approach of listing fewer, broader categories in the fee schedule is becoming increasingly popular as a way to encourage the reuse of existing buildings and simplify impact fee administration. Such fee schedules list a few very general nonresidential categories, such as retail/commercial, office, public/institutional, industrial, warehouse and mini-warehouse. This approach may not generate as much revenue as the more detailed approach, but it is legally defensible, reasonable and simpler to administer. It recognizes that the use of buildings often changes over time, and it focuses on average long-term impacts. Short-term impacts in the immediate vicinity of a use are a legitimate focus for traffic impact analyses designed to determine impacts on nearby intersections, but are not necessarily the most appropriate for road impact fees. Most commercial uses tend to be located in shopping centers, and the ITE trip generation rates for shopping centers are based on a broad mix of land uses. Shopping centers often include high-traffic uses such as movie theaters, banks, medical offices and restaurants, and the ITE manual notes that some of the studies of shopping centers include trips generated from outparcels, which tend to be occupied by the highest-traffic uses, such as convenience stores, gas stations and fast food restaurants. This approach recognizes that commercial land uses often change, avoids extremely high fees for a small number of land uses (e.g., restaurants, convenience stores), eliminates most impact fee charges for change of use, thereby encouraging reuse of existing buildings, and simplifies impact fee administration.

The proposed land use categories are compared to the current categories in Figure 3.

Figure 3. Current and Proposed Land Use Categories

Proposed Land Use Categories	Current Land Use Categories
Single Family Detached Units:	Single Family Detached Units:
Up to 1,500 sq. ft.	Up to 1,500 sq. ft.
1,501 - 2,000 sq. ft.	1,501 - 2,000 sq. ft.
2,001 - 2,500 sq. ft.	2,001 - 2,500 sq. ft.
2,501 - 3,000 sq. ft.	2,501 - 3,000 sq. ft.
More than 3,000 sq. ft.	3,001 - 3,500 sq. ft. 3,501 - 4,000 sq. ft. More than 4,000 sq. ft.
Multi-family/Other	Multi-family/Other
Retail/Commercial	Shopping Center/General Retail Auto Sales/Service Bank Convenience Store w/Gas Sales Health Club Hotel/Motel Movie Theater Restaurant, Sit-Down Restaurant, Fast Food
Office	Office, General Medical Building
Public/Institutional	Nursing Home Church Day Care Center Elementary/Sec. School
Industrial	Industrial
Warehouse	Warehouse
Mini-Warehouse	Mini-Warehouse

add mob. 1/b Home category

UTILITY EXPANSION FEES

The City does not currently assess impact fees for water and wastewater facilities, but instead assesses Utility Expansion Charges (UECs). UECs are similar to impact fees, but are adopted under authority provided in state law to assess charges for water and wastewater facilities, rather than under the authority of the *Development Fees Act* that regulates impact fees. The current water and wastewater UECs are shown in Table 3.

Table 3. Current Utility Expansion Charge Schedule

Land Use/Meter Size	Water	Wastewater	Total
Single-Family Unit (heated living area)*			
1,500 sq. ft. or less	n/a	\$499	n/a
1,501-2,000 sq. ft.	n/a	\$735	n/a
2,001-2,500 sq. ft.	n/a	\$911	n/a
2,501-3,000 sq. ft.	n/a	\$1,052	n/a
3,001-3,500 sq. ft.	n/a	\$1,169	n/a
3,501-4,000 sq. ft.	n/a	\$1,269	n/a
4,001-4,500 sq. ft.	n/a	\$1,357	n/a
4,501 sq. ft. or more	n/a	\$1,435	n/a
Multi-Family Unit*	n/a	\$561	n/a
Mobile Home Pad*	n/a	\$902	n/a
5/8" Meter	\$2,013	\$876	\$2,889
3/4" Meter	\$3,019	\$876	\$3,895
1" Meter	\$5,032	\$2,190	\$7,222
1½" Meter	\$10,065	\$4,380	\$14,445
2" Meter	\$16,104	\$7,008	\$23,112
3" Meter	\$31,402	\$14,016	\$45,418
4" Meter	\$50,325	\$21,900	\$72,225
6" Meter	\$100,650	\$43,800	\$144,450
8" Meter	\$161,040	\$70,080	\$231,120

* only wastewater fees are assessed per dwelling unit; water fees for residential are based on meter size

Source: Water UECs from Santa Fe City Code, Ch 25: Water, Exhibit B: Waster Service Rate Schedules; wastewater UECs from Santa Fe City Code, Ch 22: Sewers, Exhibit A: Sanitary Sewer Rate, Fee and Penalty Schedule

There are no specific statutory requirements for utility expansion fees comparable to those for impact fees. The City's utility expansion fee ordinance specifies the amounts of the fees, but does not contain rules governing the expenditure of the funds. The fees collected are accounted for separately, and appear to be similar to impact fees, which are intended to fund growth-related capacity expansion improvements.

The wastewater UEC was revised in 2003, and the fees are identical to those calculated in the 2003 impact fee study,⁵ which included the calculation of potential water and wastewater impact fees. The wastewater UEC charges single-family based on unit size, multi-family units and mobile home park spaces based on a flat fee per unit, and nonresidential based on meter size.

The water UEC is based on the size and capacity of the meter, similar to impact fees. The water UEC does not include the cost of the meter, which is charged separately, nor does it include the cost

⁵ Duncan Associates, *Impact Fees Capital Improvements Plan for Water, Wastewater, Roads, Parks, Fire and Police*, adopted by the Santa Fe City Council on August 13, 2003.

of water rights, which are addressed through required transfer of water rights to the City or the payment of a separate "offset fee."⁶

Aside from the different legal requirements, there are a couple of other differences between the UECs and water or wastewater impact fees. First, the UECs for residential uses have not been suspended for residential uses, whereas the road, parks, fire and police impact fees have been suspended since January 2012. Second, while the wastewater UEC is waived for affordable housing as it is with impact fees, a lower water UEC of \$800 per residential unit is assessed on affordable units.

In sum, it appears that the water and wastewater UECs are designed to serve much the same purpose as impact fees – to pay for growth-related capacity improvements. Consequently, it would not be appropriate to charge separate water and wastewater impact fees, while continuing to charge the UECs. The City can charge new customers either UECs or impact fees, but not both.

The consultant would defer to the City Attorney on whether the City would be on firmer legal ground to convert the UECs to impact fees under the authority of the *Development Fees Act*. It is noted that the City of Albuquerque also assesses water and wastewater UECs rather than impact fees, so the City of Santa Fe is not alone on this approach.

Regardless of whether the water and wastewater capacity fees remain under more general statutory authority or are converted to impact fees, we offer the following recommendations for the City's consideration. First, base the fees on updated studies. The current UECs are based on studies that are at least 10 years old. Second, put the fees in a separate account from the operating fund and spend the proceeds only on capacity-expanding improvements.

⁶ According to administrative regulations adopted pursuant to Sec. 14-8-13, Development Water Budget, of the Land Development Code, projects with smaller water demand (less than 5 acre-feet per year (AFY) for residential, 7.5 AFY for mixed use and 10 AFY for commercial) may dedicate privately-owned conservation credits, pay an offset fee for dedication of City-owned conservation credits or dedicate water rights; larger projects may only dedicate water rights to offset their water requirement. According to City utilities staff, offset fees are currently based on a cost of \$16,600 per AFY, and for a typical market-rate single-family detached unit would be about \$2,460.

City of Santa Fe
Quarterly Report for Impact Fees FY 13/14

EXHIBIT

tabbier

6A

	Roads	Parks	Police	Fire	
Funds	2720	2721	2722	2723	
Revenue	21720	21721	21722	21723	
Expense	22784	22786	22787	22788	
1ST Quarter					
Beginning Cash Balance 06/29/13	913,027.81	170,669.00	35,917.96	28,056.61	1,147,671.38
Revenue					
Impact Fees	205,996.01	-	3,275.00	9,291.00	218,562.01
Interest Income	2,436.57	215.74	7.60	73.89	2,733.80
Obligated Projects - Paseo del Sol	\$ (657,000.00)				(657,000.00)
Cash Balance	464,460.39	170,884.74	39,200.56	37,421.50	711,967.19
2nd Quarter					
Revenue					
Impact Fees	34,131.01	-	389.00	1,099.00	35,619.01
Interest Income					
Obligated Projects - Consult. Contract	\$ (60,000.00)	(15,000.00)	(2,000.00)	(3,000.00)	(80,000.00)
Cash Balance	438,591.40	155,884.74	37,589.56	35,520.50	667,586.20
3th Quarter					
Revenue					
Impact Fees					
Interest Income					
Obligated Projects					
Cash Balance					
4th Quarter					
Revenue					
Impact Fees					
Interest Income					
Obligated Projects					
Cash Balance					
TOTAL REVENUE					
TOTAL INTEREST					
TOTAL OLBIGATED PROJECTS					
TOTAL NET REV REC'D FOR FY 13/14					

**City of Santa Fe
Waived Impact Fees**

Quarter	# of Units	Fee per unit	Total Fees Waived
JAN - MAR 2013			
Single Family	29	\$ 3,498.00	\$ 101,442.00
Affordable S-F	8		
Multi-Family	0	\$ 2,674.00	\$ -
Guest House	2	\$ 2,674.00	\$ 5,348.00
Res Studio/Other	2	\$ 2,674.00	\$ 5,348.00
Quarter Total	33		\$ 112,138.00
APR - JUNE 2013			
Single Family	33	\$ 3,498.00	\$ 115,434.00
Affordable S-F	12		
Multi-Family	4	\$ 2,674.00	\$ 10,696.00
Guest House	1	\$ 2,674.00	\$ 2,674.00
Res Studio/Other	4	\$ 2,674.00	\$ 10,696.00
Quarter Total	42		\$ 139,500.00
YTD Totals	75		\$ 251,638.00
JULY - SEP 2013			
Single Family	37	\$ 3,498.00	\$ 129,426.00
Affordable S-F	7		
Multi-Family	0	\$ 2,674.00	\$ -
Guest House	2	\$ 2,674.00	\$ 5,348.00
Res Studio/Other	5	\$ 2,674.00	\$ 13,370.00
Quarter Total	44		\$ 148,144.00
YTD Totals	119		\$ 399,782.00
OCT - DEC 2013			
Single Family	17	\$ 3,498.00	\$ 59,466.00
Affordable S-F	9		
Multi-Family	0	\$ 2,674.00	\$ -
Guest House	1	\$ 2,674.00	\$ 2,674.00
Res Studio/Other	2	\$ 2,674.00	\$ 5,348.00
Quarter Total	20		\$ 67,488.00
Year End Totals	139		\$ 467,270.00

*