

## IMPACT FEE DECISIONS, STEP-BY-STEP

### First, list the facilities for which Three Forks will consider charging an impact fee.

Montana law allows impact fees to be charged for water supply, wastewater, transportation, storm water, and emergency service facilities, and, with a 2/3 vote of the City Council, other capital facilities, like parks or libraries.

### Second, agree on the Level-of-Service (LOS) standard/s for each listed facility.

LOS standards are mostly straightforward engineering rules of thumb, like the number of gallons of wastewater per day that one expects the typical home to generate or the number of trips per day that home is expected to put on the streets. Most of these standards will be recommended by your engineers. It is important for the City's leadership to understand these standards, however, because they are the basis for every other decision leading up to the adoption (or not) of an impact fee.

### Third, determine "build-out." Build-out is the amount of new development to which the City anticipates providing services in the reasonably foreseeable future.

Please see the attached "Calculating Build-Out" procedure.

### Fourth, assess the capacity of each facility to serve build-out based on the LOS by following these steps.

Taking these steps may rule out the use of impact fees for some facilities.

- A. ***Is the existing capacity of the facility sufficient to serve the existing population?*** If the answer is "Yes," go to B. If the answer is "No," go to AA.

*AA. Must the existing facility be upgraded to meet existing demand?* If the answer is "Yes," (meaning that the facility needs upgrades to meet the LOS for existing homes or commercial development even if there is no growth), determine the size of that gap and the costs of closing it. If you have a feasible strategy to close the gap by expanding the facility in a way that will also accommodate build-out, charging an impact fee may be a good idea. Go to AB. If you don't know how you're going to remedy the existing deficiency, it is unwise to charge an impact fee. Stop here.

*AB. Divide the cost of the proposed facility upgrade between what is required to remedy the existing deficiency and what could be used to support build-out.* Carry the portion of the cost that could be used to support build-out forward to the fifth step.

- B. ***If a facility is adequate for the existing demand, does it have excess capacity that can be used to accommodate new development?*** If the excess capacity is sufficient to serve build-out, go to BA. If the excess capacity will serve only a portion of build-out go to BB.

*BA. Stop here.* There is no need for an impact fee if the existing excess capacity is sufficient to serve build-out.

*BB.* An impact fee may make sense. *Take the cost of building the additional capacity forward to the fifth step.*

**Fifth, you now have the cost of building or installing the additional capacity needed to serve build-out, but must answer one more question before calculating trial impact fees.**

**Sixth, will some facilities serve only part of the anticipated build-out?** You may have to define benefit areas for certain facilities. You can't, for example, charge a developer impact fees for a new lift station that does not serve her project. Impact fees that include its cost can be charged only to the development served by the lift station. So, the impact fees charged may vary from area to area. The following steps must be taken for each benefit area.

**Seventh, divide the projected cost of providing facilities adequate for build-out (city-wide or for a benefit area, as necessary) by the build-out (number of dwelling units, square feet of commercial space).** This gives you a trial impact fee per unit or per square foot.

**Eighth, answer these questions about each trial impact fee.**

*Is there a better way to pay for this facility?* If a facility can be properly funded without impact fees – by using grants from the state, for example - it probably should be.

*Will the fee accumulate rapidly enough to make a significant contribution to the construction or installation of the facility for which it was collected?* An impact fee may be defensible, but insufficient to make a practical difference in what the City can afford to build or install.

*Given the need for affordable housing, is the City willing to fund the impact fees owed by affordable housing development?* This question does not ask if the City would waive impact fees. Affordable homes generate about the same demand for facilities as market rate homes. They should pay the fees. Some municipalities do, however, encourage the provision of affordable housing by budgeting to pay impact fees.

**Finally, decide on a slate of fees to include in a new ordinance.**

You cannot defensibly charge more than the amounts calculated following the procedure outlined here. The City is not required to charge a fee just because it could (as noted above, there may be a better way to pay for the facility) nor is it required to charge the maximum.