MEMORANDUM

City Explained, Inc.

To: Mr. Tom Hall
Town Manager
Town of Scarborough

From: Mr. Matt Noonkester
Principal
City Explained, Inc.

RE: Scarborough Downs Development Impact Analysis — Peer Review

Date: November 7, 2018

The Town of Scarborough received a development application for the Scarborough Downs property that included a request for a Credit Enhancement Agreement (CEA) to build certain infrastructure improvements. Town staff completed a fiscal impact analysis of the CEA request to 1) compare two alternative development scenarios with and without a CEA, and 2) quantify the parameters for a negotiation with the developer if or when the Town might move forward with a CEA for the property. The analysis was presented to Town Council as part of the larger development application. During the review process, members of Town Council requested an outside peer review of the fiscal impact analysis — including its data, methodology, and assumptions — in comparison to similar studies completed throughout the United States.

The peer review was completed in two parts: 1) an overall review of the methodology and conclusions of the fiscal impact analysis, and 2) a focused review and assessment of the municipal cost components included in the analysis. Part one of the peer review was completed by Brinn Consulting and summarized in two letters dated September 19, 2018, and October 26, 2018. The purpose of this memorandum is to summarize a review of the cost components included in the fiscal impact analysis as Part 2 of the peer review. The review was limited in scope to the information provided by Town staff on October 31, 2018.

About the Author

Matt Noonkester has twenty-one years of experience managing projects that help local, regional, and state government officials tackle difficult public policy planning issues. His experience with fiscal impact analysis, infrastructure investment strategies, return-on-investment studies, the infrastructure and government finance elements of a comprehensive plan, and development impact fees started early in his career and includes work for communities across the United States ranging in size from small towns to large metropolitan regions. He builds both numerical and spatial data models to help stakeholders contemplate multiple futures for a community — measuring the impacts of competing development scenarios and evaluating the trade-offs between them.

His firm's flagship software product — CommunityViz™ — is widely used throughout North America and the world for scenario planning, decision analytics, and the visualization of competing alternatives. He and his staff's experience building sophisticated computer models, custom software applications, and interactive public engagement solutions includes several applications for measuring fiscal impact analysis, return-on-

investment, and the impacts of growth on supporting infrastructure. Current applications of CommunityViz software for this type of work includes projects in Cedar Rapids, IA; Las Cruces, NM; Broken Arrow, OK; Scarborough, ME; Port Chester, NY; Pinehurst, NC; and Lexington, SC.

Town of Scarborough Return-on-Investment Study

The Town of Scarborough hired City Explained, Inc. in 2017 to complete a town-wide return-on-investment (ROI) study to accompany the new Town of Scarborough Comprehensive Plan (a draft of the Comprehensive Plan document is currently available for public comment). Generally speaking, the return-on-investment study compared anticipated Town revenues over time to anticipated Town expenditures over the same time period. A ratio of 1.0 or greater (i.e., revenues divided by expenses) represented a condition where expected revenues exceeded expected expenditures, meaning that revenues for the planning horizon were anticipated to be enough to meet or exceed anticipated expenditures. A computer model built with CommunityViz software stores the input data and equations, which was provided to Town staff in draft form for their continued use independent of the consultant. The final ROI study and CommunityViz model for the Town of Scarborough will be released after adoption of the Comprehensive Plan.

The town-wide study area for the ROI assessment and generalized assumptions about future growth for undeveloped parcels in the study area — based on height, bulk, and density standards in the Town's Zoning Ordinance and/or future land use categories in the Comprehensive Plan — makes the CommunityViz model, as it is developed, too general for a site-specific analysis where information is volunteered by the developer (vs. approximated by a computer model). However, the data inventory and analysis efforts completed for the ROI study to program generation rates, elasticity factors, coefficients, etc. specific to conditions in Scarborough is beneficial for other infrastructure investment studies in the Town. Information from the ROI study was considered by Town staff and largely used for developing the methodology and starting data values for the Scarborough Downs fiscal impact analysis numerical model.

Development Scenario Descriptions

The fiscal impact analysis for the Scarborough Downs property includes two scenarios. Scenario 1 assumed the Town would become an active partner in the development of the property under a Credit Enhancement Agreement, which included a more intense, more compact development program under current zoning allowances and provided the developer with an opportunity to share in some of the increased revenues that the Town may receive because of it. Scenario 2 assumed no partnership with the Town and a less intense, more dispersed development program that also conformed to current zoning allowances (the "status quo" scenario).

The Town's fiscal impact analysis concluded Scenario 1 could increase potential Town revenue by $229 million over a thirty-year period. The draft CEA limits the shared amount for the developer at $55 million plus a potential bonus of $26 million capped at $2 million per year starting in Year 17 of the analysis. The full revenue-sharing agreement amount of $81 million (if the developer meets all of the prescribed performance targets in the CEA) would offset certain infrastructure costs for the developer; leaving between $148 million (assuming the developer meets the performance targets) and $174 million (assuming the developer does not meet the performance targets) in potential revenues for the Town.

More detailed information about the two development scenarios is provided in the overall development application, which is available for review at the Town's Planning and Code Enforcement Department.

30-Year Build-Out Period

The fiscal impact analysis for Scarborough Downs assumed a twenty year build-out period for Scenario 1 and a thirty year build-out period for Scenario 2 (based on development programs provided by the developer). Ten additional years of the same service levels were added to Scenario 1 — conditions in year twenty were repeated for ten additional years — so both scenarios were comparable for a thirty year planning period.

A thirty-year build-out period for the fiscal impact analysis is longer than similar studies in the United States that report data using year-by-year statistics. Town staff may want to identify period intervals — short-term (five years), mid-term (fifteen years), and long-term (thirty years) — that match their confidence in the data and assumptions used in the analysis. Changing market conditions, demographics, lifestyle choices, etc. observed over the last thirty years (1988 to 2018) demonstrate how variable some of the assumptions about household size, students per household, etc. might be for anticipating conditions in 2048.

Cost Categories

Six infrastructure cost categories were included in the fiscal impact analysis: public schools, police protection, fire protection and emergency medical services, public works, community services (parks and recreation), and the public library. This list is consistent with the categories used in the Town of Scarborough Return-on-Investment Study completed in 2018. Similar studies in other locations of the United States might also include water and sewer infrastructure; however, these services in Scarborough are provided by utilities separate from the Town.

The number of cost categories included in the fiscal impact analysis seems adequate for the needs of the project evaluation.

Zero Construction Cost Assumptions

The fiscal impact analysis excludes construction costs from the calculations based on the assumption that all infrastructure will be paid for by the developer and/or with current and future development impact fees. Evaluating the Town's development impact fee program and calculating if impact fees might cover all future infrastructure costs not paid for by the developer is beyond the scope of this peer review. It is assumed that the Town's development impact fee program will be updated regularly during the thirty-year planning horizon to keep fees in line with construction costs (beyond adjusting for inflation per Section 8.A in Town of Scarborough Impact Fee Ordinance).

Similar studies in other locations of the United States acknowledge the true cost of infrastructure — construction, operation, maintenance, and rehabilitation — for enumerating municipal costs over a thirty-year planning horizon. The fiscal impact analysis for Scarborough Downs assumed zero construction costs for the project (see above). Operating and maintenance costs were reflected in the unit cost estimates for the different infrastructure categories in the analysis, and followed closely the methodology used for the Town of Scarborough Return-on-Investment Study completed in 2018. Major investments to rehabilitate or replace infrastructure at the end of its lifecycle — new police cruisers, new fire trucks and ambulances, new park

equipment, library expansions, etc. — appear to be missing from the analysis. It is assumed certain Town infrastructure would need to be rehabilitated or replaced sometime during the thirty-year planning horizon.

Cost Calculation Methodology

All six infrastructure cost categories used in the fiscal impact analysis assumed a consumption-driven approach, whereby the cost to build new infrastructure on a per unit basis was determined using existing service delivery standards. For example, the current number of calls for police or fire protection in the Town (by land use category) was multiplied by a generalized cost per call statistic calculated from the Town's Annual Budget (i.e., total budget for the department ÷ total number of calls for service in the same year) and applied to the development program for Scarborough Downs under Scenarios 1 and 2. This is consistent with the methodology used in the Town of Scarborough Return-on-Investment Study completed in 2018.

The consumption-drive approach used for the infrastructure categories included in the fiscal impact analysis is consistent with similar studies in other locations of the United States.

Unit Cost Statistics

The fiscal impact analysis includes unit costs for each of the six infrastructure categories, as follows:

- Public Schools — Cost per Student
- Police Protection — Cost per Service Call (by land use category)
- Fire Protection — Cost per Service Call (by land use category)
- Public Works — Cost per Centerline Mile
- Community Services (Parks & Recreation) — Cost per Resident
- Public Library — Cost per Resident

The unit cost rules used for the fiscal impact analysis were consistent with the Town of Scarborough Return-on-Investment Study completed in 2018. Town staff updated the unit cost values for the fiscal impact analysis with information from the Fiscal Year 2019 Town Budget. They also adjusted the student generation rates by housing unit using Public Use Micro Data from the US Census Bureau, and developed two cost per student statistics for 'including' and 'excluding' fixed costs for the Scarborough School District (i.e., Central Office expenses, existing debt service, etc.).

The unit cost rules and new unit cost values used for the fiscal impact analysis are consistent with similar studies in other locations of the United States. The two perspectives on school costs provide a more conservative (including certain fixed costs) and less conservative (excluding certain fixed costs) statistic for a site specific analysis. In our work, we would include fixed costs for schools in a town-wide (or larger) study area, while evaluating the use and sensitivity of including fixed costs for schools in a site-specific development plan (considering the proportion of new residential dwelling units to total residential dwelling units in the school district). Ultimately, both statistics are valuable and local decision-makers should decide which one they are most comfortable with for increasing their confidence during the decision-making process.

Cost Escalation Factor

The fiscal impact analysis incorporates an annual cost escalation factor to account for increased municipal costs over time. The factor is based on the *Municipal Cost Index (MCI)* developed by American City & County, which is designed to recognize the impacts of inflation on the cost of providing municipal services. State and local governments around the United States use the MCI for their annual and future year budget processes. The same cost escalation factor was applied to all six infrastructure categories in the analysis.

Several other cost escalation factors — *Construction Price Index* published by the U.S. Department of Commerce or *Construction Cost Index* published by Engineers News-Record — are available for approximating inflationary indices. However, the focus on operating and maintenance costs for the Scarborough Downs fiscal impact analysis (see the "Zero Construction Cost Assumptions" discussion above) makes the *Municipal Cost Index* an appropriate choice for estimating cost escalation in future years.

Conclusion

Our review of the fiscal impact analysis for Scarborough Downs finds the data, methodology, and assumptions used by Town staff for the cost components of the analysis are appropriate when compared to similar studies completed throughout the United States. Any concerns we have about annual statistics reported for a thirty-year period are not specific to the Town's analysis, and we believe the data and assumptions used are based on best available information at the time the analysis was completed.

The work completed by Town staff represents a reasonable projection of the costs associated with both scenarios being considered for the Scarborough Downs property.