

The following chart on recommended changes and set of questions explain the supporting data from Town records for reviewing the current Growth Ordinance.

The goal as find the right parameters for managing growth. Determining the correct number of permits to base decision on along with the financial interpretation is provided below.

The summary below is for quick reference on the recommendations for making changes to the existing Growth Permit Ordinance. The changes are supported by the information from the question and answer format.

Growth Ordinance sections	Areas to consider in Growth Ordinance	Current Status	Proposed Changes	Question Number
G.3.a	SFH Two Family – no change Multi Family – no change	103	115-125 <b>125</b>	1,4,
G.3.b	Permits in F and Fr	40	45 or 50 in F, remove FR from this section and place remainder of permits in the general category	1,2,5 <b>45</b>
G.3.d	# permits per entity or person	15	“no more than 5 per quarter issued to a total of 15	<b>Yes</b>
G.5.c.1	Point system for Growth Permit	4pts per year	Allowed once per year	7, <b>Yes</b>
G.7.a	Code Officer allowed discretion	5 per year at end of year- not in subdivision	10-12 per year at any time <b>10</b> <b>No subdivision restriction</b>	3, <b>Yes</b>
	Hard ship allowance	<b>CEO administrator Amend Ord. to add more permits per need by Council</b>	<b>12 per year by whole council committee</b> <b>No additional numbers</b>	<b>Super majority</b> <b>TM</b> <b>recommendation</b> <b>simply majority</b>
Automatic Growth Factor (similar to CPI) TBD	Automatic escalator	Not in ordinance	<b>H=Hold Do not Add</b>	We will need to have Counsel opinion on this suggestion.
<b>Rezone the Town</b> <b>TBD</b>	<b>Zoning</b> <b>Growth zone Caps</b>	<b>Zoning from 70's needs to be revised, + changes to the Comp Plan.</b>	<b>Rezone the Town, send to a referendum vote in June 2022</b> <b>TBD on date</b>	<b>5,6 Yes</b>
Subdivision Lots TBD	Study effects of subdivision lots prior to enactment of Growth Ordinance	These lots fall under current permit regulations	<b>Prior</b> to effect date of Growth Ordinance – modify for early acceptance	<b>Report out</b> <b>#, Availability</b> <b>Infill plan</b> <b>Y</b> <b>Grandfather YY</b> <b>(need data) YY</b>

Budgetary Impacts & Understanding				8,9,10,11,12,13, 14,15,16,
General Questions and Information				17,18,19,20,21, 22,23,24,25
Add in exemption	One-bedroom units no growth permit			<del>N</del> <del>Y-growth zones</del>
Application Fee	Application Fee	\$50 applied towards growth fee 100, comparison,comparison	Make non-refundable	Yes
Additional Data on Permits	Impact of revenues	Impact of Bonding	Possible Project Impact by Bonding	26-31

**1) What are the number of SFH (residential, condo & Multi) for the last 4 years?**

TOTAL Number of permits for last four (4) years with Percentages of Change										
		F		FR		RM	C-1,2,3	LD, LR, VC	Total	Growth Permits
2020	Permits	85		28		29	24	4	170	133
% of Chg		113		-15		-46	4	-56	7	
2019	Permits	40		33		54	23	9	159	125
% of Chg		-22		-3		238	53	13	28	
2018	Permits	51		34		16	15	8	124	104
% of Chg		21		26		14	67	-27	20	
2017	Permits	42		27		14	9	11	103	83

**Where did these permits numbers come from?**

The above numbers came from the Code Office my gov program, download on an excel spreadsheet. They are sorted by zone and tabulated using excel.

**What is the average number of permits over the last four years?**

**139 units** (this number represents actual permits for 2020, using the prior three years that average is closest to 128)

**112 units** (this number represents growth permits-the last four years permits have been adjusted to reflect the exemptions, and duplexes, etc.)

**What is the difference from the last years number of permits and the current Growth Average?**

170 (last year) and 100 allowable Growth permits equals 70 permits.

**133** (growth permits last year and 100 Growth permits equals 30 permits.

What is the difference between the last years number of permits (170) and average (139) over four (4) years?

31 permits

What is the difference between the last years number of permits (133) and the average (112) over four (4) years?

21 permits

**2) One of the Objectives of the Growth Ordinance was to preserve the F zone.**

What you see in the above data set is an increase of permits in that zone last year. The Growth ordinance allows 40 permits in the F and FR areas. We should separate out the F and FR areas in the Ordinance. FR should be removed from G.3.b and total number of permits for F (40) should be amended to reflect growth average over last four (4) years at 54 permits. Having said increase at 54 the recommendation was in the summary chart above was placed to 7 to 10 additional permits over the 40.

**3) Should the number of permits currently allowed be adjusted per month from nine (9) and/or the allocation by the CEO currently at five (5) be adjusted.**

Since the current growth ordinance was put into effect at the end of August 2020, the Town has issued the allowable nine (9) permits each month to eleven (11). That allowable number should be increased per the total number available and additionally the CEO is currently allowed 5 additional permits at the end of the year that number should be unrestricted and increased to fifteen (15). This would allow for the short building season in Maine.

**4) What is the Average number SFH & Condo and Multi's for each DECADE for the past four Decades?**

Year	Single Family, Mobile and Acc. Apt	Multi fam	Total	Total # no Access Apt	Permits per month
	Units	Units			
2010-2020	88	16	104	100	23
% Chg	-5	524	7	13	219
2000-2010	93	3	97	88	7
% Chg	-21	-38	-20	-23	-23
1990-2000	117	4	122	115	10
% Chg	11	100	14	11	11
1980-1990	105	2	107	103	8.6

Financial Crisis  
2008 =20% decr.

What is the average number of permits over the last ten (10) years for all four (4) decades for SFH, Multi's & Mobiles?

107 units

What is last year's total permit count (170) and the difference with the 40-year average (107)?

63 permits

What is the last years growth permits (133) and the difference with the 40-year average (107)?

26 permits

What is the difference from the 4-year average (139) and the last 10 years (107)?

32 permits

What is the difference from the 4-year average (112) and the last 10 years (107)?

5 permits

5) What is the zoning area acres by percentage for Windham?

ZONE	Area (acres)	% of Windham Land Area
C-1	1506	4.96
C-2	216	0.71
C-3	887	2.92
ED	770	2.53
I	485	1.60
RM	1838	6.05
VC	108	0.36
<b>TOTAL</b>	<b>5810</b>	<b>19.13</b>
<b>Rural Areas</b>		
F	18,555	61.08
FR	5301	17.45
RL	710	2.34
<b>TOTAL</b>	<b>24,566</b>	<b>80.87</b>
WATER	2355	7.75
<b>TOTAL</b>	<b>30,376</b>	<b>100.00</b>

The zones available for SFH will be lower since some zones do not allow SFH. When the I (Industrial) and ED (Enterprise Development) zones are deducted from the total 19.13%, the percentage of allowable area is actually 15%

These zoning areas have existing business and residential (RM, VC) development, with varying limitations, thusly constricting availability.

Currently we are placing 40% of permits in 80% of the land area (F & FR), this means 60% of the current available permits must fit in 15% of the allowable zones.

6) Should the Town consider reviewing all zoning.

All zoning should be reconsidered and brought to the community for a referendum approval. The target date for the referendum should be June 2022. Using that target date after public comments the final recommendations should be presented to the Council in February of 2022. I would recommend using an outside professional services agency to accomplish this monumental task.

**If the Council desires to pursue rezoning**

This analysis should also include potential Comp Plan adjustments and the review of requiring sidewalks and public water supply to all new subdivisions no longer in the Rural areas..

7) The Point system should be adjusted to correctly allocate points to the applicants.

Currently the Ordinance allows for a point system in section G.5.c.1 which allocates four (4) for each year, what it should state is four (4) once per person. This way a developer cannot use this to his/her advantage.

8) What is the percentage increase in the net annual municipal budget which is determined thorough contractual obligations whether yearly or multi-year contracts?

Last year's increase was \$450,000 (rounded with minor items excluded), this is 5.5% of the net, or approx. 2.3% of the gross municipal budget. Using net budget is more accurate.

**9) What does that Contractual (CPI) increase equal in mil rate terms?**

Approximately 20 cents (understand there are many factors which affect this number), it is important to understand we have 29 revenue sources to offset our budget excluding real and personal property taxes. We basically have 4 revenues sources excluding yearly new valuation increases to offset the annual contractual CPI increases. Those four variables are Excise Taxes, Building Fees, Plumbing fees, Revenue Sharing. Homestead is direct along with Bette plan. The three largest are Excise, Building fees and Revenue Sharing. Revenue fluctuates since it based on a sales tax apportionment set by the State, in different administrations this number has been reduced or has been attempted to be eliminated. As a rule of "thumb" we use last year's actual receipts, rounded, and modified depending on circumstances for the coming years budget.

**Valuation View of impact on the number of permits**

**10) What is the current valuation average of a SFH excluding land in 2020/2021?**

\$395,697 for further calculations this will be rounded to \$400,000. Land is excluded in this calculation since it is already incorporated in the real estate valuation assessment, the exception is new lots created. I did not do the research to calculate that number.

**11) What is the difference between last year's permits 170 and allowable Growth permits (103) calculated as an estimated valuation total?**

The calculated difference is 26 million. (several assumptions are implied). This valuation applied to the current Mil Rate of \$15.00 equals \$390,000 in revenue.

25 new SFH in valuation growth equals \$10,000,000 which equals \$150,000 in revenue. These increases in valuation growth allow the community to bond for various projects, roads, etc

**12) What is the estimated difference in incremental building permit fee growth per year? (this is difficult to calculate since the data has recently change with new fees, but my best estimate using existing data is 21%)**

The calculated number (guess-estimate) is 5.67 million or 6 million. This valuation applied to the current Mil Rate equals \$90,000 in revenue.

**13) What does the 6 million represent in potential new SFH permits?**

This is a difficult number to calculate. Based on the above it is 15 permits per year, we are using averages and this may or may not reflect the actual count (you could have 7 high value homes, or twice as many lower valued), the important point is this incremental growth assists in off-setting operation contractual costs.

**14) How is that incremental growth from various revenues used each year?**

The incremental growth in building permits or even excise taxes, revenue sharing, etc. is used to offset our reoccurring contractual (CPI) increases.

**How are new project costs affected within the budget if the incremental growth is not available?**

Through the mil rate (property tax increases), or to a certain extent this can be accomplished, using impact fees, layering of leases and bonds to replace capital infrastructure & paving improvements.

With no incremental revenue increases the mil rate would increase to maintain the current service level provide no cuts in services. ***In 26 years of developing budgets one of the general rules is to protect the revenues. Revenue decreases are not good for a budget.***

## Revenue Impact on Permits

15) What is the revenue income from SFH, Multi Unit permits for the last 4 years?

Building Fees 2019-2020				
		Building	Impact	Total
2020		\$251,750	\$252,152	\$503,902
% of Chg		90	155	117
2019		\$132,735	\$98,977	\$231,712
% of Chg		13	24	18
2018		\$117,407	\$79,641	\$197,048
% of Chg		28	17	24
2017		\$91,660	\$67,877	\$159,537
		Fee charges on 2/25/2020		
Average incremental permit fee growth is 21 % of permit fees received.				

Please note that we changed the fee structure on 2/25/2020 which resulted in increases that are reflective (comparisons) to our neighboring communities. We were under charging for permits and with those adjustments we are now more fairly apportioning the cost. *This increase in revenue is an added advantage to accomplishing the goals for the Community*

### What is the average permit cost for a new SFH?

That cost is approximately \$3,500 without impact fees.

25 new SFH times \$3,500 represents approximately \$87,500 in building revenue.

### What is the estimated incremental increase in permit fees (excluding increased permit cost adjustments) each year?

That is difficult to extract from the data set above since we have had a new set of fees of established in 2/25/2020. Using the percentage increase of 21% applied to the \$503,000 equals approximately \$105,000.

16) What are the current Impact Fees, balance and per year increase by category?

	Roads South	Recreation	Sidewalk North	RTE 302 North	Open Space	Sidewalk South	Town Hall	Public Safety
Balance	\$22,010	\$109,750	\$24,168	\$36,326	\$92,178	\$10,434	\$31,615	\$107,590
Encumbered		\$363,845						
2021	\$869	\$133,290	\$289	\$4,603	\$60,828	\$97	\$31,615	\$107,590
2020	\$7,143	\$182,800		\$2,836	\$31,350	\$39		
2019	\$1,106	\$97,840	\$2,331	\$567				
2018	\$2,615	\$110,240	\$3,466	\$9,044				

**What is the Average impact fee on a standard home in Windham?**

The calculated amount is \$1,483, for evaluation purposes we will use \$1,500.

The equivalent of 25 SFH permits is equal to \$37,500 in impact fees, and/or if those impact fees were bonded for capital needs this equals \$900,000 for various projects.

**17) What is the impact of reducing 25 SFH permits to excise taxes?**

Excise taxes are a result of vehicle registration, my best calculations in this area for one home with two vehicles represents approximately \$500. Depending on the vehicles driven, kids, in-laws, business type this number may fluctuate. A conservative number in loss revenue would be \$12,500.

**18) What is the Growth of Windham?**

Town Population Growth					
Year	Population	Population Incr.	# Households	% of Chg	Average # Permits
2010-2020	18195	7.0	7279	14	100
2000-2010	17001	14.1	6383	16	88
1990-2000	14904	14.5	5522	22	115
1980-1990	13020	15.4	4521		103
1970-1980	11280	71.1			
1960-1970	6593				
		12.75	Average	17	

Even though the population has increased at an average of 17% over the last three (3) decades the Ten (10) year average of permits has remained relatively the same.

**Does the Growth Ordinance affect land values?**

This can be a difficult question to quantify since this is about supply and demand. Economics indicates that when supply is short, and demand is high, and the price escalates. The question is, does limiting growth permits increase cost of land on completed home package sales? Based on the increase in pricing for homes currently occurring it appears this is so. And if so, over time does this effect the socio-economic makeup of the community based on income stratification. In other words, are we pricing out affordability? These are questions should be tracked using additional data to evaluate the impact if any.

**19) Use of permit reserves by the Council**

How often - no limit there are conditions

When to Add - permits to the reserve pool are allowed to be added at the end of the year.

What to use for

- Council can add permits for projects within the growth areas.
- Part of contract zone
- Part of an affordable housing project 50% must be affordable
- Dwellings in approved subdivision for multi-units
- In a designated growth area per Comp. Master Plan
- Additional permits must demonstrate that they cannot be constructed in a timely and efficient manner or unreasonably reduce the current availability.

State Restrictions on Council

With the addition of additional growth permits the State is not involved.

**20) Can more flexibility be given to the Council in the addition of permits to the reserve?**

Yes- amend the ordinance.

**21) How many Gift Lots have been given?**

This data will be separated in the future by the assessing department, at this point in time it would be too laborious to review every declaration of sale filed with the County Registry.

**22) How many Vacant Lots are presently in Subdivision prior to enactment of the Growth Ordinance?**

We have a listing of lots, but the data needs to be further "cleaned" before a determination of use can be examined. The question arose that property developers invested monies without the restrictions of the growth permit plan, this may thusly impact the results of the investment. There are a number of small developers which may be affected. A solution to this issue may be adding a separate pool of reserve permits for this issue subject to CEO discernment which would not affect the allowable permits. This may only be needed for a few years as those lots are filled in. Current subdivision development is keenly aware of the permitting process and can also avail an except to the Council.

**23) What has RSU 14 anticipated for new homes for Windham in their budget?**

The estimated number of new units the RSU uses is 125 SFH units (please understand this subject to a number of variables)

**24) What is the impact of units not built in Windham do to the Growth Permit cap and those units potential being built north of Windham?**

The impact would be lost permit revenues, valuation and excise tax loss and we would still get the traffic congestion for those property owners traveling to Windham. Potentially our businesses would see some additional revenues.

**25) Has Windham had a Growth Ordinance in the Past?**

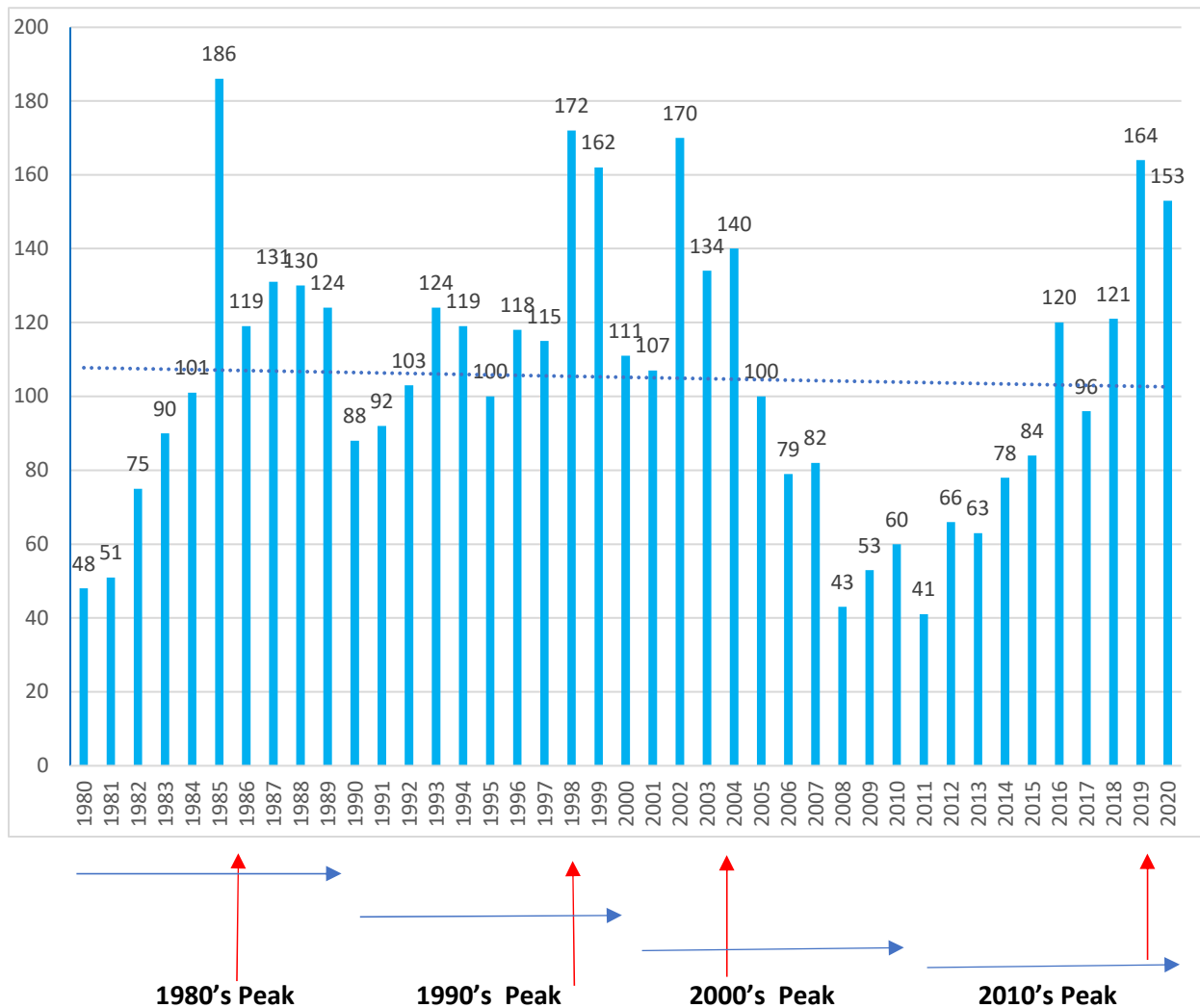
Windham did have a growth ordinance in 1989 which applied to subdivisions and allowed number of permits. This was repealed as being inconsistent with State law in 2012.



## Additional Information on Revenue Impacts, Project Costs and Bonding

26) What is interesting about this chart is that in each of the last decades we have had a surge of permits.

In reviewing the permits per year since 1980 which is over four (4) decades and taking out the 2008 - 2014 recession permits the average number of permits over 40 years is 110.



27) How many Growth Permits are currently in Reserves?

Chapter 116 Growth Management Ordinance adopted 7/28/2020 effective 8/28/2020	
Reserve Pool of Growth Permits	
Growth Permits	Comments
50	Established 8/28/2020
63	Growth permits not issued from 2020 annual allocation, transferred to reserve pool
20	Town Council approved allocation 5/9/2021 for Chamberlain Estates Subdivision
93	Balance available (Note: 20 Reserved for affordable housing each calendar year)
The Code Enforcement Officer may issue up to five (5) growth permits from the reserve pool each calendar year for detached single-family dwellings that are located on lots that are not part of a subdivision, provided that there are no growth permits available from the annual allocation.	

28) What is the lost revenue per permit and the resultant Mil Rate increase and Tax increase?

Revenue Categories	Estimate Revenues per Permit	70 SFH Permits	30 SFH Permits	10 SFH Permits
RE Valuation Taxes Avg.	\$6,000			
Permits Avg.	\$3,500			
Impact Fees Avg.	\$1,500			
Excise Taxes Avg.	\$500			
<b>Total</b>	<b>\$11,500</b>	<b>\$805,000</b>	<b>\$345,000</b>	<b>\$115,000</b>
Mil Rate .01 cent Increase /23K loss revenues		0.35	0.15	0.05
Tax Increase on 300K home		105.00	45.00	15.00
Tax Increase on 400K home		140.00	60.00	20.00
Tax Increase on 500K home		175.00	75.00	25.00

#### Examples

- If Growth is capped at 103 homes per year what is the anticipate loss of revenue?
  - That loss is \$805,000 in 1<sup>st</sup> year (note the taxable valuation loss for each year thereafter is \$420,000). The greater loss is in multiple years of not being able to fund various projects or assume shortfalls, etc.
- If Growth is capped at 130 homes per year what is the anticipated loss of revenue from the 100?
  - That loss is \$345,000 in 1<sup>st</sup> year. (Same approach as above on losses)

What have the additional revenues from permits, excise and RE taxes been applied to in the past? These additional revenues beyond budget allocation all become part of the Unassigned balance fund, which is allocated during the Budget process.

- Some examples, Brand road (cash), Police and Fire Central Station (bonding and cash to cover the materials increase)

29) What the estimated Tax Increment Financing Districts Revenues for TIF Specific Projects?

<b>Tax Increment Financing Districts (TIF)</b>									
	Tax Rate	Pipeline	Roosevelt	Marblehead	Gateway A	Gateway B	Boody Corner		
2022	\$15.00	\$152,649.00	\$406,467.00	\$9,796.00	\$166,541.00	\$74,592.00	\$121,606.00	\$931,651.00	
2021	\$15.00	\$152,649.00	\$210,000.00	\$9,796.00	\$166,541.00	\$74,592.00			
2020	\$14.64	\$148,985.00	\$210,000.00	\$9,561.00	\$107,753.00	\$73,582.00	Encumbered	\$250,000	
2019	\$15.18	\$154,481.00	\$210,000.00	\$9,913.00	\$76,726.00				
2018	\$16.43	\$182,189.00	\$210,000.00	\$10,610.00	\$51,087.00		Potential	\$681,651	
2017	\$15.70	\$174,094.00	\$210,000.00	\$10,138.00	\$48,797.00		Available		

30) The estimated available TIF revenues to offset potential Bond Payments in the TIF District is \$681,651.

31) What is the Bonding rate on 1,000,000 over 15 years at 1.5%.  
 ○ Principle and Interest is approx. at \$75,000 per year.

32) What are the potential projects in the coming years, with estimated project, yearly bonding costs by funding sources?

Yellow = TIF

Orange = Impact & General Fund

Bond Payment for Possible Projects

		Anticipated Bond Payments for Projects										TIF, Impact, General Fund (GF)
Timeline	Description	Bond Payments	Term	Rate	Amount Financed	Interest	Total	Payment / YR	Best Scenario	Worst Scenario		
2023-2024	Manchester & Franklin											
	Best	Connector Road	20	1.50%	\$4,000,000	\$632,436	\$4,632,436	\$231,624	\$231,624		TIF	
	Worst	Connector Road	20	1.50%	\$6,000,000	\$948,654	\$6,948,654	\$347,436		\$347,436	TIF	
2026	Improvemetns 302		15	1.50%	\$3,000,000	\$632,436	\$4,632,436	\$231,624		\$231,624	TIF	
2024-2025	NW Sewer Options											
	Best	Sewer (sm) or (12 to 15 m)	30	1.50%	\$15,000,000	\$3,489,801	\$18,489,801	\$586,280	\$586,280		TIF	
	Worst	Sewer (15 to 20m)	30	1.50%	\$20,000,000	\$4,848,655	\$24,848,655	\$828,288		\$828,288	TIF	
		Phase 1 and 2										
								Sub Total	\$817,904	\$1,407,348		
2023	Morrell Open Space											
	Best	585 acres	30	1.50%	\$500,000	\$121,216	\$621,216	\$20,712	\$20,712		Impact&GF	
		fund raising										
	Worst	585 acres	30	1.50%	\$1,000,000	\$242,433	\$1,242,423	\$41,412		\$41,412	Impact&GF	
								Sub Total	\$838,616	\$1,448,760		
2025-2026	NW Fire Station relocation											
	Best	off new rear acce	20	1.50%	\$4,500,000	\$721,149	\$5,211,490	\$260,580	\$260,580	\$260,580		
								Sub Total	\$1,099,196	\$1,709,340	Impact&GF	
2026-2027	Library											
	Renovation	on-site	10	1.50%	\$400,000	\$63,244	\$463,244	\$23,160	\$23,160		General Fund	
	Relocation	Middle School & Classrooms	20	1.50%	\$2,100,000	\$332,029	2432029	\$122,196		\$122,196	General Fund	
		* includes Resource Center						Sub Total	\$1,122,356	\$1,831,536		
2026	Community Center	Base (Core)	15	1.50%	\$2,000,000	\$234,675	\$2,234,675	\$148,980	\$148,980	\$148,980	Impact&GF	
2027-2028	Middle School	Add'l Pool	15	1.50%	\$6,700,000	\$786,161	\$7,486,161	\$499,080	\$499,080	\$499,080	Impact&GF	
2027-2028		Add'l Gym	15	1.50%	\$5,900,000	\$692,291	\$6,592,191	\$439,488	\$439,488	\$439,488	Impact&GF	
		*core includes façade, interior functionality and Family Resource incluces					Sub Total	\$2,209,904	\$2,919,084			
2028	Downtown 21st	Infrastructure	15	1.50%	\$7,000,000	\$821,362	\$7,821,262	\$521,424		\$521,424	TIF	
								Sub Total	\$2,209,904	\$3,440,508		
	Roads											
		Paving	15	1.50%	\$1,500,000	\$176,006	\$1,676,006	\$111,732	111,732.00		General Fund	
		Paving	15	1.50%	\$1,000,000	\$117,337	\$1,117,337	\$74,484	\$74,484		General Fund	
	Add'l Playing Fields										TBD	
	Traffic Management Improvements										TBD	

33) Could the projected TIF (yellow) project expenses (Rear Access roads and NW sewer) be able to be paid by the anticipated TIF revenues.

- The current revenues equal 681,000+/- while the best- and worst-case expenses exceed current revenues. Limiting revenues will shift costs to be covered by mil rate calculations.

34) What other approaches to funding project items in the orange could be applied.

- Ideally, using additional revenues beyond budgetary allocation limits the impact to the mil rate adjustments.
- Grants offer some capacity
- Impact fees on smaller project items can fund limited bond payments but this revenue source is limited to the number of permits.

### **35) Options**

#### **A. Leave existing Growth Ordinance as is.**

- Slower growth
- Less revenues
- Increased mil rate
- Increased public anxiety

#### **B. Modify Growth Ordinance**

- Better growth
- Improved revenues
- Increased mil rate (at current rate of project identification)
- Increased public anxiety

#### **C. Suspend Growth Ordinance with sunset, revamp Zoning for Nov. 2022 public vote at polls**

- Growth as market demands
- Optimum revenues
- Potential the best option to limit mil rate increase
- Public anxiety would be consistent pending rezoning

### **Town Manager Recommendation**

After researching the data, identifying/quantifying the revenues and expenses I would recommend option C.

Optimizing the mil rate is a very important, the Town has adopted an Open Space Plan to preserve the unique features for the community, should revamp the zoning which dates back to the 70's. Needs to make road and traffic improves to accommodate the tourists that come and pass through Windham. Those costs fall primarily on the Town.

The Town incurs \$460,000 in contractual increases per year. The revenues described above along with modifying the long-term debt obligations, grants, cost reductions, have been the combined model limiting the mil rate increases. To continue in this approach C is the best option.