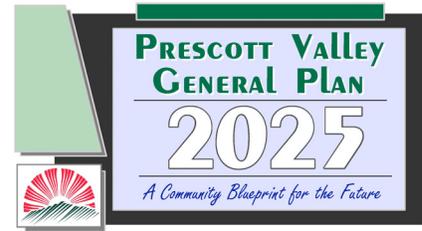


# CHAPTER 9

## COST OF DEVELOPMENT ELEMENT



### 9.1 INTRODUCTION

The purpose of this Element is to identify and delineate fiscal impacts created by new development and determine how costs will be equitably apportioned. An equally important charge within this Element is to address when and how costs will be assessed, as well as their apportionment.

Since its incorporation in 1978, the Town has employed a variety of methods to determine the fiscal impacts from new development and retrofitting existing development to provide a fair assessment of the associated public cost burden. Impacts resulting from new residential neighborhoods and commercial development are noticeable in fast-growing jurisdictions like Prescott Valley. Development outpacing school construction, lagging utility and transportation infrastructure, increasing public safety response times, and overloading flood control facilities are types of situations that may arise when necessary infrastructure components are not in place concurrently with new or existing development.

The Cost of Development Element is designed to:

- ▶ Identify various mechanisms that are allowed by law which can be used to fund and finance additional public services necessary to serve the development, including bonding, special taxing districts, development fees, in-lieu fees, facility construction, dedications and service privatization.
- ▶ Identify policies to ensure that any mechanisms that are adopted by the Town under this Element result in a beneficial use to the development bear a reasonable relationship to the burden imposed on the Town to provide additional services to the development and otherwise are imposed according to law.

### 9.2 AT THIS POINT IN TIME

Cost of development related issues are hot topics when “smart growth” is the subject.

In at least the last 15 to 20 years, communities in all regions of the country have struggled with issues relating to the cost and impact of development. In Arizona, these struggles culminated in the passage of the State’s Growing Smarter enabling legislation.

Philosophical discussions on the need for impact fees and their effect on housing costs and the economy of the community may continue indefinitely. However, the rationale for charging impact fees seems inevitable, and is based on the premise that new development should pay the costs associated with growth. Conversely, the existing residents should only bear the costs of improving existing facilities and services.

#### *Cost of Development Element*

4. A cost of development that identifies policies and strategies that the municipality will use to require development to pay its fair share toward the cost of additional public service needs generated by new development, with appropriate exceptions when in the public interest. This element shall include:

- (a) A component that identifies various mechanisms that are allowed by law and that can be used to fund and finance additional public services necessary to serve the development, including bonding, special taxing districts, development fees, in lieu fees, facility construction, dedications and service privatization.
- (b) A component that identifies policies to ensure that any mechanisms that are adopted by the municipality under this element result in a beneficial use to the development, bear a reasonable relationship to the burden imposed on the municipality to provide additional necessary public services to the development and other are imposed according to law.

*(Arizona Revised Statutes, Section 9-461.05-9 D 4)*

## 9.2.1 FUNDING SOURCES

The League of Arizona Cities and Towns and the Trust for Public Land have identified a number of sources for local communities to fund services. Table COD-1: *Matrix of Local Financing Tools*, provides an overview of funding sources and mechanisms available to local communities.

**Table COD-1  
Matrix of Local Finance Tools**

Finance Tool	What It Is	Who Pays	How Long It Lasts
Property Tax Financing	Tax of Real Property	Commercial and Residential Property Owners	Tax Ongoing or Increased for a Defined Time Period
Special Assessment	Separate Units of Government that Manage Specific Resources within Defined Boundaries	Residents of the District through Property Taxes, User Fees, or Bonds	Tax Ongoing or Increased for a Defined Time Period
Sales & Use Tax	Tax on Sales of Goods or	Purchasers of Goods or Services	Tax Ongoing or Increased for a Defined Time Period
Impact Fee	One-Time Fee to Offset Costs of Infrastructure Caused by New Development	Developer of Project	One-Time Cost to Developer
General Obligation Bonds	Loan Taken Out by a Town, City or County Against the Value of Taxable Property	Town, City or County Through Taxes Paid by Property Owners	Bonds are Typically Issued for 15, 20 or 30 Years
Revenue Bonds	Loan Paid From the Proceeds of a Tax Levied for the Use of a Specific Public Project, or with the Proceeds of Fees Charged to Those Who Use the Facility That the Bonds Finance	Town, City or County Through Tax Revenues Paid by General Population or User of a Service	Bonds are Typically Issued for 15, 20 or 30 Years
Certificates of Participation	Loan Taken Out by a Town, City or County Against the Value of another Property	Town, City or County Through Tax Revenues Paid by General Population or User of a Service	Bonds are Typically Issued for 15, 20 or 30 Years
Mitigation Financing	Developer Set-Aside of Land	Developers of a Project	One-Time Cost to Developer
User Fee Financing	Fee That Covers the Cost of a Service	Anyone Who Chooses to Take Advantage of a Service	One-Time Cost to User

Source: Website for The Trust for Public Land, Matrix of Local Finance Tools, January 14, 1998, <http://www.tpl.org>

### 9.2.1.1 GENERAL AND ENTERPRISE FUNDS

Services in Arizona cities and towns are typically funded through the community's general fund, as well as several enterprise funds. Every Arizona city and town maintains a general fund to pay for the most fundamental of services and programs. In most cases, the community's public safety services (fire, police, emergency medical) are paid for through the general fund. Other activities that can be provided for through the general fund include courts, parks, libraries, recreational programs, technology and support services, and some transportation services. Enterprise funds are usually derived from activities related to the fund, such as water or wastewater user fees, and are specifically earmarked for these purposes.

### **9.2.1.2 LOCAL TAXES AND FEES**

Much of the funding that allows Arizona cities and towns to provide services comes from locally enacted revenue sources. These sources can provide general-purpose funds, or they may be used for a specific purpose, such as a water bill covering the costs of providing clean water to subscribers. In Arizona, other sources of municipal funding include, but are not limited to:

- ▶ **Local Transaction and Privilege Use (Sales) Taxes.** This is usually the largest source of local revenues. In Arizona, the state levies a general sales tax. In addition, local communities and counties may also levy an additional sales tax.
- ▶ **License Fees.** Local communities may issue licenses to businesses, weddings, vendors, or pets.
- ▶ **Building Permits.** Local communities may charge fees associated with residential, commercial and industrial construction and remodeling.
- ▶ **Service and Use Fees.** Local communities may charge fees for water, sewer, trash collection, public swimming pools and golf courses.

### **9.2.1.3 PROPERTY TAXES**

Arizona's cities and towns do not rely on property tax as their major source of revenue due to the fact that only approximately 13 percent of the state is privately owned. Local, county, state and federal governments, and several sovereign Native American nations own the remaining 87 percent.

### **9.2.1.4 REVENUE SHARED by THE STATE OF ARIZONA**

The State of Arizona shares several taxes or fund monies with local communities. A brief description of each is provided below.

#### **Income Tax**

- ▶ Fifteen (15) percent of state income taxes are shared with cities and towns.
- ▶ State income taxes are distributed per each community's percentage of total state incorporated population.

#### **State Sales Tax**

- ▶ Twenty-five (25) percent of the distribution base is returned to the local community.
- ▶ Distribution is based on the individual community's percentage of the total state incorporated population.

#### **Highway Users Revenue Fund (HURF)**

- ▶ Local cities and towns receive 27.5 percent of net highway user revenues collected by the State.
- ▶ Distribution is based on a population basis and overall county gasoline sales.

### Vehicle License Tax (VLT)

- ▶ Local cities and towns receive 20.45 percent of the net vehicle license tax collected in their counties by the State.
- ▶ Distribution is based on population.

### Local Transportation Fund

- ▶ Monies are generated by the Arizona lottery.
- ▶ Distribution is based upon the population of all cities and towns applying for funds.
- ▶ The maximum amount distributed annually is \$23 million.
- ▶ The funds are restricted to transportation projects only.

### 9.2.1.5 GRANTS, MATCHING FUNDS AND AWARDS

Municipal governments in Arizona are eligible for a variety of grants and matching-fund programs available from the federal government, the State of Arizona, and private sources such as foundations and corporations. The majority of these programs target specific purposes, such as public safety or nutrition assistance, while others are general-purpose funds. In addition, there are numerous award programs, for which local communities can apply, with many awards also including a grant.

While most grants are allocated on an annual basis, many grants can be allocated to a given community multiple times, but usually must be applied for annually in a competitive process. Thus, they do not constitute a reliable source of funding for local programs, but they can provide for needed service or program upgrades.

### 9.2.2 PRESCOTT VALLEY'S IMPACT FEE ORDINANCE

Impact fees, one-time fees charged toward new construction to alleviate the "impact" of new residents and businesses on infrastructure, have been assessed by the Town of Prescott Valley in some fashion since 1995. The fee structure was most recently revised in 2006. The intent of impact fees is to ensure that "growth pays for growth" and that existing residents are not unduly burdened to pay for the infrastructure needed to accommodate new residential subdivisions and commercial developments.

In order to incentivize the commercial and industrial base of Prescott Valley, impact fees have been formally waived for these categories by the Town Council and the Town was victorious in court when these waivers were challenged by the home building industry. These categories provide ongoing benefits to the Town in the form of sales taxes and property taxes for those jurisdictions that assess a property tax (i.e. school district, fire district).

Impact fees have been a particularly sore spot with the homebuilding industry in Arizona and have repeatedly been challenged in court. The legislature has also been heavily lobbied by the homebuilding industry to limit the abilities of cities and towns to collect these fees. The most sweeping changes to the impact fee statute were approved by the legislature and governor in 2011. Major changes in the newly revised statute will prohibit cities and towns from waiving fees for commercial development, enact refund provisions if projects are not completed within a 10 or 15 year period, and limit the types of projects for which impact fees may be assessed. All cities and towns will be required to update their impact fee studies and rate structures by 2014.

Senate Bill 1525 of the 50<sup>th</sup> Legislature, 1<sup>st</sup> regular session dramatically changed the impact fee authorizing statutes. *of new development.*

## 9.3 Looking Toward 2025

Each Town service or activity is divided into two distinct parts: 1) General operations (i.e., energy, labor costs) and 2) the Town's physical structure (i.e., capital projects, infrastructure). General operations costs are usually funded through the collection of taxes, utility and service payments, grants and subventions. Increases in tax collections and revenue flows to the Town associated with new development are generally used to pay for the impacts of growth affecting general operations.

*On Sept 14, 2006 the Town Council approved Resolution No. 1461, allowing the Town to assess development impact fees as a condition of new development.*

The Town's physical structure refers to land, buildings and improvements to streets, utilities and other facilities and property owned by the Town. To achieve the Town's Level Of Service standards, it is necessary to add to the physical structure. For example, new housing development will require a corresponding increase in parks and open space lands, streets, utilities and other public infrastructure. Costs to expand the physical structure will be borne by new development where the costs are fair and reasonable and results in services or facilities necessary and pertinent to the new development (and are otherwise legally permitted assessments).

### 9.3.1 Cost of Development

The ability to sustain facilities and services to the community are affected by the rate of growth and the balance of growth between residential and non-residential uses. The Town of Prescott Valley has chosen to pay for ongoing facilities and services without a property tax, which means the sales tax generating retail sector must be developed in the local economy. Absent retail sales tax, the community will have to consider using property tax to pay for daily general operating services.

The Town can utilize the following guidelines to develop the manner in which development pays its own way:

- ▶ Establish service and facility standards to help identify how existing capacities will support demands from new and existing development.
- ▶ Recognize new development impacts on existing public services and facilities.
- ▶ Where applicable and to the extent possible, require development to pay for itself.

These guidelines are consistent with the Growing Smarter legislation with respect to assessing the costs of development. The Town may utilize a number of funding strategies for new infrastructure, equipment and facilities necessitated by growth.

### DEVELOPMENT IMPACT FEES

On September 14, 2006, the Town Council approved Resolution No. 1461 allowing the Town to assess development impact fees as a condition of new development in the Town. The Prescott Valley Development Impact Fees are meant as fair share contributions for new construction to pay the costs of community growth in the five impact fee areas described below. For new commercial and industrial development, the Town has historically waived the fees to encourage their proliferation and growth and the subsequent tax benefits. For new residential development, the Town collects development fees for Circulation System, Recreation, Parks and Open Space, Public Safety, Civic, and Cultural. For comparison sake, a review of other Arizona Communities' impact fee programs is included in Appendix C.

### **Circulation System Fees**

All residential and nonresidential units would contribute to this fee account inasmuch as roadway improvements benefit all users. Major projects to be partially funded through this fee package, as identified in the Town's Capital Improvement Program, include: major street widenings or extensions; regional transportation improvement partnerships among the Town, County and State; trail/pathway linkages; and related right-of-way enhancements.

### **Recreation, Parks and Open Space Fees**

This fee is applicable only to residential units. The fee covers recommendations in the Town's Capital Improvement Program, including future parks, trails and open space expenditures.

### **Civic Fees**

This fee is applicable to residential and non-residential units. The fee is applied towards the development of civic facilities.

### **Cultural Fees**

This fee is applicable only to residential units. The fee is applied toward the development of library facilities.

### **Public Safety Fees**

The Public Safety Fee is applied to all types of land uses. This fee is intended to cover the costs of installing public safety facilities, such as expansion of the police headquarters facilities.

## **ADDITIONAL FUNDING AND FINANCE MECHANISMS**

In the 1950s and 1960s, a fair amount of funding came from state and federal government sources, but since about 1965 government capital financing has not kept pace with either inflation or population growth. Today's environment is a much different matter, and local governments are under severe pressure to pay for the costs of growth. Some other sources of funding for provision of the public facilities and services necessary to serve new development are worth evaluating on a case-by-case basis. The funding sources include, but are not limited to:

- ▶ General fund revenues (or pay-as-you go);
- ▶ Primary and secondary property taxes;
- ▶ Transaction privilege (sales) taxes;
- ▶ Specialty industry taxes (e.g., bed taxes);
- ▶ Excise taxes;
- ▶ Voter approved bonds (both revenue and general obligation varieties);
- ▶ Certificates of participation
- ▶ Municipal property corporation bonds;
- ▶ Improvement districts;
- ▶ Community facility districts;
- ▶ Payment in lieu fees;
- ▶ User fees;
- ▶ Dedications of land;
- ▶ Construction of improvements, including off-site improvements;
- ▶ Service privatization;

- ▶ Grants, Matching Funds, and Awards; and
- ▶ Remaining state and federal sources.

Additional funding sources were previously identified in Section 8.2.1. The sources listed in Sections 8.2.1 and 8.3.1 provide an array of choices for the Town to consider in determining how to fund additional services and infrastructure.

## **9.4 Guiding Principles, Goals and Policies**

*Refer to the Environmental Planning and Water Resources and Growth Areas Elements for additional goals and policies related to infrastructure.*

**GUIDING PRINCIPLE COD-A: PROVIDE A HIGH LEVEL OF MUNICIPAL SERVICES AND FACILITIES TO SERVE THE COMMUNITY AND EQUITABLY ASSESS AND MANAGE THE FISCAL AND CAPITAL IMPACTS RESULTING FROM DEVELOPMENT BOTH WITHIN THE EXISTING TOWN SITE AND ON CURRENTLY UNDEVELOPED LAND.**

**GOAL:      ***COD-A1      Evaluate facilities, equipment and infrastructure to ensure maximum usefulness and affordability to Prescott Valley residents and employers.*****

**POLICIES:** COD-A1.1 Provide adequate levels of municipal facilities and services for existing and new development through the Capital Improvement Plan.

COD-A1.2 Identify levels of service indicators for the delivery of Town services that reflect the typical experience of citizens and other service users.

COD-A1.3 The Town shall identify costs of expansion of Town operations and facilities to maintain service level expectations.

COD-A1.4 Utilize development impact fees to ensure that the infrastructure system and municipal facilities are developed and maintained to serve the community.

**GUIDING PRINCIPLE COD-B: ASSURE DEVELOPMENT WILL OCCUR IN A FISCALLY SOUND AND EQUITABLE PROCESS USING A VARIETY OF FUNDING SERVICES.**

**GOAL:      ***COD-B1      Provide a fair and reasonable assessment of the costs for mitigating the physical impacts of growth.*****

**POLICIES:** COD-B1.1 Develop a plan to finance the costs associated with the expansion of government operations.

COD-B1.2 The Town shall identify fees, other revenues, and funding mechanisms that may be used to pay for the expansion of operations and new facilities generated by new growth.

COD-B1.3 Ensure that development impact fees are designed to require new development to pay its fair share.

**GOAL:      ***COD-B2      The Town shall periodically review the Development Impact Fee Ordinance for possible revisions.*****

**POLICIES:** COD-B2.1 The Town shall examine how it has been financing capital improvements, as well as analyze each type of facility in terms of how capital improvements have been financed

and how new development contributes toward capital finance. This examination should assist the Town in determining impact fee equity.

- COD-B2.2 The Town shall prepare a fiscal impact analysis of future community growth. The analysis should include detailed cost and revenue projections, and recommendations concerning future revenue sources (including user fees), rates, levels of service, capital costs, location, distribution and staging of development, operating expenses, and other relevant issues.
- COD-B2.3 After completion of the fiscal impact analysis, the Town shall prepare a detailed and transparent cost recovery (impact fee) formula that can be used to fine tune the Town's existing development impact fee program. The impact fee formulas shall be tailored to Prescott Valley's unique growth and development patterns and plans.
- COD-B2.4 The Town shall expend development impact fees within a specified time period, as specified by State law, to ensure that needed infrastructure improvements are made to maintain the Town's Level of Service standards. If the fees are not expended within the specified time period, they shall be refunded to the current owner.
- COD-B2.5 The Prescott Valley Development Impact Fee resolution shall be reviewed and revised to include clearly established costs and Level of Service standards for the impact fees that are imposed.
- COD-B2.6 Development Impact Fees shall be collected by one Town department. The accounting system shall be designed to make available information on where the impact fees were spent.
- COD-B2.7 The Town shall develop a detailed policy regarding the granting of credits against impact fees. The policy shall provide administrative detail and clearly describe the nature of the credits and offsets. Administrative provisions shall clearly specify the condition under which the credit is allowed, credit formulas, credit parameters (number of past and future years to consider, interest or discount rates), and the limitations of the credit (the particular impact fees that can be reduced).
- COD-B2.8 The Town shall adopt reasonable administration charges to allow the Town to offset the costs of running the Development Impact Fee program.