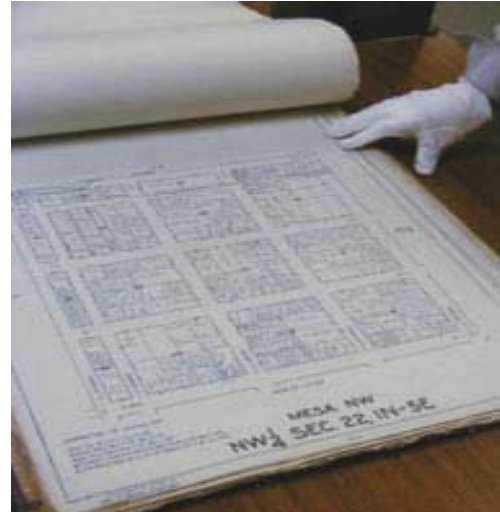


# 12.0 Cost of Development

The purpose of the Cost of Development Element is to assure that new development pays its “fair share” of the cost of additional public services necessary to serve that development, with exceptions allowed when in the public interest. The element also provides information regarding potential funding mechanisms for providing public services and infrastructure as the existing systems mature during the next 25 years.



## 12.1 Background

The City of Mesa provides a wide range of infrastructure, facilities, and services to its residents and businesses. These services, including streets, public utilities, public safety (police and fire), housing, solid waste, libraries, parks and recreation, redevelopment and transit, have been provided through a variety of funding mechanisms.

The City of Mesa uses two major tools to fund the services it provides, a Budget (Operating) Plan and a Capital Improvements Program, both of which are updated annually and are closely linked to the General Plan. Due to the City's tremendous population growth over the past decades, the City's Budget Plan and Capital Improvements Program have grown rapidly, thereby allowing the City to continue to provide required infrastructure, facilities, and services.

### 12.1.1 General Funding Mechanisms

A wide variety of funding mechanisms are available to Arizona municipalities to meet the cost of public services through both the Budget Plan and the Capital Improvements Program. Facilities and services that are provided to all citizens as a benefit of living in the City are paid for by a number of revenue sources. Examples of specified revenue sources are Highway User Revenue Funds for roadways and public utility payments for water, sewer, and gas service. Examples of general sources include municipal sales and use taxes and State revenue sharing.

### 12.1.2 Funding Mechanisms Specific to New Development

In order to determine cost of public services specific to new development, the associated impact of the project on the City's infrastructure must be determined. The impact may be seen as the necessary expense for meeting established City standards for properly serving the new development. For instance, roadway

improvements, police and fire service, and utility linkages will be required to assure that City standards are met. Certain services are paid through the Budget and CIP Plans, however, new development must also pay their fair share of providing such improvements to offset impacts that they have created. Public service or infrastructure improvements required by the impact of new development may be either on-site or off-site. On-site includes streets, infrastructure, and other amenities within the boundaries of the platted area of the new development. Off-site improvements are those that are beyond the boundaries of the new development based on impacts at a greater scale than on-site.

On-site improvements are required by the City as the developers' cost of development as part of their subdivision improvements, zoning and other City Code standards. Further requirements may be the result of development agreements or stipulations associated with the City Council approval of the new development. The cost of constructing on-site improvements are most often born by the developer, although operation of maintenance of these roads, utilities and other services are often given to the City through dedications.

Off-site improvements that may be proportionally assigned to the new development by the City may be funded according to specific mechanisms, such as development impact fees, special assessments, or improvement districts. For new commercial developments, mechanisms such as user fees and sales taxes may be used.

### 12.1.3 Cost of Development Issues

The City of Mesa was among the 20 fastest-growing cities in the nation between 1990 and 2000 and grew to the 46<sup>th</sup> largest city. The impact of development on the provision of municipal services in Mesa during this time was tremendous. In order to support services to the existing population and pay for future services to serve new development, it is important to first consider a number of issues regarding cost of development.

These issues may be summarized as follows:

- How will new development pay for their fair share of providing new public services needed?
- How will the City improve public services to existing development when needed?
- How will the City operate and maintain public services to new development and to upgrade existing public services?
- How will the City pay for the cost of providing public services through available funding mechanisms given the challenges of the future, such as improving deteriorating infrastructure and providing improved services based on new technology?

In order to address these issues, it is important to consider a number of existing and potential revenue sources, as follows:

### Revenue Sources in General

#### Sales and Use Taxes

A sales tax generates revenues by imposing a tax on retail and other sales activities. A use tax is imposed on items used within a business on which a sales tax has not been charged. Municipalities in Arizona may impose sales and use taxes on sales and use activities within their boundaries. The City of Mesa currently imposes a sales or use tax of 1.0 percent on retail sales and business activities occurring within the City for expenditure on general City operating expenses. The City also levies an additional 0.5 percent sales or use tax pursuant to voter approval given at a special election held in 1998. The revenues deriving from the levy of this "Quality of Life" ½-cent sales tax may be expended only for the purposes specified on the 1998 ballot, and shall not be used for general operation purposes. Of this 0.5 percent tax, 0.25 percent sunsets as of July 1, 2006, with the remaining 0.25 percent collected in perpetuity.

#### Specialty Industry Tax

Municipalities in Arizona may impose specialty industry taxes, such as hotel bed taxes and rental car taxes. These taxes are typically paid for by visitors to the municipality (i.e., non-residents) and are used to fund specific services, such as tourism, cultural or sports related facilities. Specialty industry taxes may be used to fund both operating and capital expenditures. The advantage of a specialty industry tax is their payment by non-residents and the application of their revenues for specific purposes.

#### General Obligation (GO) Bonds

The City may issue general obligation bonds to provide funding for certain capital improvement purposes. The issuance by the City of general obligation bonds is subject to prior voter approval, and to certain constitutional and statutory limitations in regard to the amount and purposes for which the City may issue such debt. The annual debt service requirements of such bonds are secured and payable from a continuing, direct, annual, ad valorem tax to be levied against all of the taxable property located within the boundaries of the City without limit as to rate or amount. However, the City currently pays the annual debt service requirements on all of its outstanding general obligation bonds from revenues and moneys of its general fund, certain special revenue funds and the utility systems enterprise fund. The sources of payment used by the City to pay its outstanding general obligation bonds generally correspond to the purposes for which bond proceeds were expended. Should the City experience a significant shortfall in the revenues it intends to use for payment of general obligation bond debt service in the future, or if the City determines that the bonds will not be paid there from, an annual property tax will be levied for this purpose.

### Revenue Bonds

The City may issue revenue bonds to provide funding for specific types of capital improvement projects. Revenue bonds generally are issued as (1) utility systems revenue bonds, (2) street and highway user revenue bonds or (3) excise tax revenue bonds. Utility systems revenue bonds require voter authorization for issuance, and are special obligations of the City secured and payable solely from the net revenues generated by the City's utility systems (i.e., water, wastewater, natural gas, electric and solid waste systems). Street and highway user revenue bonds require voter authorization for issuance, and are limited obligations of the City secured and payable solely from certain highway user taxes and motor vehicle fuel tax revenues collected by the State and returned to the City for street improvement purposes. Excise tax revenue bonds do not require voter approval for issuance, but may indirectly be put to a vote should approval of additional City excise taxes be required for their payment (i.e., the City's "quality of life" issue in 1998). While utility systems revenue bonds and street and highway user revenue bonds may be issued to finance only utility systems or street improvement projects, respectively, excise tax revenue bonds may be issued to finance virtually any capital improvement project that may be legally undertaken by the City.

### User Charges

User charges recover costs for services provided under a municipality's authority to protect and promote the health, safety, and general welfare of its citizens and businesses. Services for which user charges may be leveled include utilities (electricity, gas, water, wastewater), solid waste collection, and recreation. Charges may be structured in varying manners, such as flat monthly fee (e.g., solid waste collection) or on a unit basis (e.g., kilowatt hours of electricity), and may also include fixed one-time or monthly connection charges.

User charges have a variety of advantages, including flexibility in terms of use, a direct relationship between use and charges, enabling capital expenditures outside tax or spending limits, generation of revenues that are bondable (e.g., revenue bonds), administrative efficiency, and ability for use in a variety of development types (e.g., existing, emerging and new).

The City of Mesa operates the following eight enterprise funds that levy user charges: electric, gas, water, wastewater, solid waste management, airport, golf course, and community center. In addition, the City of Mesa levies charges for the use of a wide variety of facilities and/or activities, such as general government, culture, parks and recreation.

### Property Tax

Mesa is unique to Arizona in that it does not impose a property tax based on the assessed value of property in their community. Property taxes are composed of a primary and a secondary component, with the primary component used to fund operating expenses and the secondary component used to fund special

obligations, such as the repayment of bonds and budget overrides. Primary property taxes are subject to limits imposed by the State, while secondary property taxes are not subject to limits.

A property tax may provide an advantage for the City in that they are a potentially large and stable source of revenue; they are familiar to citizens/businesses; they have limited risk of taxpayer avoidance; they have flexibility in terms of the expenditure of tax revenues; and they are deductible from income taxes.

### **Cost of New Development Revenue Sources**

#### Special Assessment Financing

Under the provisions of Title 48, Arizona Revised Statutes, the City may create certain types of special districts within the boundaries of the City for the purpose of providing financing for (1) construction of capital improvement projects, (2) the annual maintenance costs associated with certain types of capital improvement projects, and/or (3) the delivery of certain “enhanced municipal services”, all or any of which must be of a “local benefit” to properties located within such districts. Annual assessments are levied by the City upon the properties located within such districts for these purposes according to the proportionate benefits derived by such properties, as calculated by the City pursuant to statute. The City may establish traditional improvement districts for financing the cost of specific capital improvement projects through the creation of special assessments payable by property owners “up-front” in cash, or over time through the issuance of improvement district bonds. The City may establish special districts for the purpose of levying annual assessments for the payment of certain project maintenance costs. Or the City may establish special districts, such as community facilities districts, which may legally accomplish both capital project construction and project maintenance purposes.

#### Development (Impact) Fees

Impact or development fees are one-time fees imposed on developers to fund the “fair share” proportion of additional public infrastructure and facilities required for new development. Impact fees are subject to strict legal tests that focus on a logical, proportional and beneficial relationship existing between the fees imposed and the benefits received by the new development. Development fees have numerous advantages, including requiring new development to pay for the costs it imposes, increased coordination between growth and public services, reduced need to raise taxes to pay for growth, and cost transparency for developers (in comparison with exactions which tend to be highly variable).

Starting in 1997, the City of Mesa began imposed impact fees on new development for water, wastewater, parks, cultural facilities, libraries, fire, and police services. These fees vary by type of land use and density/intensity of new development. The City of Mesa is currently studying the possibility of also

imposing impact fees for arterial roadways, storm sewers, and general government activities.

#### Dedications and Exactions

Dedications are the transfer of on-site land and/or facilities from a private entity to a municipality at no cost. Municipalities generally require the dedication of on-site land necessary for roadways, utilities, drainage, and large public facilities (e.g., parks, recreation, cultural facilities), and may also require the dedication of related facilities at municipally specified standards (e.g., arterial roads, storm sewers, neighborhood parks).

Exactions are negotiated contributions of off-site land or facilities by a developer in return for approval of the proposed project. Exactions are typically negotiated on a case-by-case basis for provision of major off-site infrastructure facilities (e.g., pump-lift station, sewage treatment plan) for large subdivisions or annexations. Linkage programs are a related funding mechanism that can be used to require off-site facilities (e.g., low-income housing) in return for development approval.

The City of Mesa requires various dedications, including roadway rights-of-way, roadways and related facilities (pavement, curbs, sidewalks, water and sewer lines, fire hydrants, sewer lines, street lights, signage, alleys, etc.).

#### Development Agreements

Municipalities may enter into voluntary agreements with property owners to protect or reserve land for public purposes, protect environmentally sensitive land, and/or to preserve historic structures. Such agreements may regulate property use, density, height, and other characteristics. While strictly voluntary in nature, development agreements may be used to attain goals such as the preservation of open space, the provision of land for public facilities, and the preservation or redevelopment of historic buildings.

#### Privatization or Public-Private Partnerships

The private provision of facilities and/or infrastructure may take a number of forms, including contracting out (e.g., vehicles or machinery), franchise agreements (e.g., the right to provide utility service to specified area), and specific projects (e.g., convention center, major sports facility). Similarly, public-private partnerships involve a sharing of the cost of facilities or infrastructure between the public and private sectors. These forms of financing must be beneficial to both parties and guarantees should exist that community security and equity will not be compromised.

## 12.2 Goals, Objectives, and Policies

### Goal COD-1

Provide excellent public services to new and existing development in Mesa, and sustain the City's fiscal health.

- Objective COD-1.1** Assess new development for the provision of public services at established levels of service.
- Policy COD-1.1a Annually evaluate in a comprehensive manner the cost of providing public services in the City of Mesa.
- Policy COD-1.1b Annually update existing funding mechanisms to reflect the cost of providing public services to new development.
- Policy COD-1.1c Integrate public service requirements due to new development into the annual *City Budget Plan* and *Capital Improvement Program*.
- Objective COD-1.2** Improve public services to existing development when desired by City residents/businesses, fiscally possible, and legally allowed.
- Policy COD-1.2a Periodically prioritize and integrate selected public service improvements to existing development into the annual *City Budget Plan* and *Capital Improvement Program*.
- Objective COD-1.3** Consider funding mechanisms that contain the elements of efficiency and legality to provide public services to new development and to upgrade existing public services.
- Policy COD-1.3a Periodically undertake comprehensive studies to evaluate the efficiency and legality of existing and potential funding mechanisms for the provision of public services to new and existing development.
- Objective COD-1.4** Improve the availability and understanding of information concerning the cost of providing public services, available funding mechanisms, and the City's fiscal health.
- Policy COD-1.4a Annually prepare concise, easy to understand summaries in text, tabular and graphic form of the annual *Budget Plan*, *Capital Improvement Program*, cost of public services studies, level of service studies, funding mechanism studies, and related studies.
- Policy COD-1.4b Annually distribute summaries to City staff, politicians, residents and businesses, and other interested parties.

**Goal COD-2**

Provide means to ensure that new development pays its fair share of the additional costs of extending or improving public service facilities and systems.

- Objective COD-2.1** Assure that new development proportionally contributes to the provision of public services and other community amenities at acceptable standards.
- Policy COD-2.1a Periodically evaluate the incremental costs of providing public services to new development in the City of Mesa.
- Policy COD-2.1b Assure that new and existing revenue sources related to new development are utilized as needed to offset impacts to infrastructure and public service systems.
- Policy COD-2.1c Continue to conduct research and evaluation of potential new sources of revenue to meet the costs of providing additional public services for new development.