Cost of Development

Chapter 7: Cost of Development Element




7.1 Introduction

Economic growth is an essential component of ensuring adequate revenue to support Pima County robust programs and services as prioritized by the Board of Supervisors and the electorate. Inherent with economic growth is new planned development that contributes impact fees, sewer fees, water fees, processing fees and property taxes to the County. Increasing the number and value of real estate parcels contributing taxes based upon assessed valuation provides the foundation for funding Pima County services and creating the bonding capacity which can be used to finance community improvements approved by the voters.

The purpose of this Cost of Development element is to identify goals, policies, and implementation strategies to initiate actions that offset the cost of additional public service needs generated by new development. While this is a priority in Pima County, exceptions may occur when in the public interest. This element establishes the goal and policy framework for developing implementation measures that will result in public-private cost sharing of capital facilities and services needed to serve new development. These measures clarify the roles of the public and private sectors, which are critical to achieving the County's economic development goals and facilitating new planned development. It is important to accept and encourage reasonable population growth to bolster the workforce and support economic development.

This element addresses three key components:

1) **It defines the term "fair share."** State legislation allows the County to define this term based on its unique needs and resources and relates to the portion of costs of infrastructure necessary to support new development to be paid for by developer;
2) **It establishes a measure of fairness.** This guarantees that costs borne by new development result in a benefit to the development; and provides a reasonable relationship between development costs and the burden imposed on the County for providing additional necessary public services for the development It is not the intent of the Cost of Growth element to overburden the growth industry or be a disincentive to private sector capital investment in the development of quality residential, mixed use and commercial enterprises; and

3) **It identifies various options** that can be used to fund and finance additional, necessary public facilities and services.

The need for new and expanded infrastructure and services to serve current and future residents and businesses in Pima County are significant. These costs may exceed current and projected revenues. Long term maintenance costs should be considered as part of County infrastructure investments to facilitate future growth as well as meeting current service needs. These needs are evident not only in designated growth areas of the County, but also in aging and redeveloping areas. (See Section 4.2, Focused Development Investment Areas Element) Rural, Suburban, and Urban areas have different level of service needs. These service levels should be clearly delineated through the use of infrastructure service areas to set property owners expectation levels.

The Cost of Development Element addresses meeting community needs for infrastructure and services in an equitable and reasonable manner. The Cost of Development Element cannot and does not address development that has already occurred; it is limited to new development and redevelopment of existing sites. This element meets the intent of the Cost of Development Element required in ARS 11-804C.4.

7.2 Cost of Development Goals and Policies

New development within unincorporated Pima County can have an impact on infrastructure and services in adjacent jurisdictions. This is particularly true when new development occurs near jurisdictional boundaries or involves regional systems, such as the transportation or wastewater systems. Regional cooperation is necessary to ensure that resources are available to address the impacts of development on both County and regional systems in order to effectively promote the development of Focused Development Investment Areas (growth areas).

Goal 1: Maximize the efficient use of land by planning land uses and infrastructure in Focused Development Investment Areas or Targeted Redevelopment areas.

Policy 1: Encourage the development of retail, commerce, employment and mixed-use residential projects in Focused Development Investment Areas and in other planning areas where infrastructure is in place or planned.

Goal 1 Implementation Measures:

a. In conjunction with residential and commercial development stakeholders, identify Focused Development Investment Areas (growth areas) and land uses appropriate in size and location for future employment and revenue generating development.

b. Minimize land use changes within identified Focused Development Investment Areas that constitute barriers for future employment or revenue generating land uses through the use of tools such as Transfer of Development Rights and other land mitigation strategies.

c. Consider the cost/benefit ratio of new development proposed in designated Focused Development Investment Areas as part of the approval process.

d. Continue to work with major property owners to market and develop sites for retail, commerce and mixed-use projects and work out innovative development terms to help fund the infrastructure improvements.

e. Manage all economic development efforts and work with Sun Corridor Inc. to prepare and implement an Economic Development Strategy that aggressively markets designated Focused Development Investment Areas and major economic development corridors to potential employers, retailers and commerce to curb long commutes to other employment centers.

Goal 2: Develop a process to provide the facilities and services required to serve new development

Policy 1: Work with development community stakeholders to develop a methodology as part of the Planning Facilities Management System for determining the need and for assessing the cost of new facilities and services required to serve new development.

Policy 2: Identify long-term maintenance costs of infrastructure and possible cost recovery mechanisms to fund maintenance.

Goal 2 Implementation Measures:

a. Explore cost recovery strategies for the following facilities and services: parks and recreation, stormwater management and drainage, sheriff services, animal care, and any other facilities and services deemed appropriate.

b. Establish or confirm Levels of Service standards for each facility identified for cost recovery.

c. Establish or reconfirm the benefit/service area for each public facility and determine the facility needs and costs to service the benefit/service area based upon the established Levels of Service standards.

d. Clearly define funding streams for each improvement, facility or service along with legal constraints.

e. Identify costs of expansion of County operations and facilities to maintain service level expectations.

f. Employ technological and programmatic innovations to enhance productivity and reduce capital and/or operations and maintenance costs.

g. Within the context of market conditions, incentivize a pattern of development that balances both the service demand and revenue-generation of land uses in phase with other uses that demand services.

h. Maintain a Capital Improvements Program that prioritizes needed facilities and service improvements to maintain the adopted Level of Service standards.

Maintaining a menu and authorizing use of legally available financial mechanisms allows the public and private sectors to work together to find the appropriate cost recovery approach for each new development. It also allows for flexibility in the event that one or more mechanisms become unavailable or if additional methods are made available.

Goal: 3 Appropriate with capital improvements, recover the cost of public facilities and services required to serve new development that are not met by impact fees, wastewater fees, property taxes and other development related fees or taxes

Policy 1: Identify all legally available financial mechanisms to recover the cost of public facilities and services required to serve new development.

Goal 3 Implementation Measures:

a. Explore the best methods to fund and finance new public facilities and services, such as bonding, special taxing districts, community facilities districts, development fees, in-lieu fees, facility construction dedications, service privatization, and consolidation of services.

b. Ensure that the adopted system of development fees and facility/utility improvement policies bear a reasonable relationship to the burden imposed on the County by new development to provide services to such development.

c. Require all new development to contribute or construct new facilities or systems within or adjacent to the development consistent with its proportional use of the facility.

d. Update development fee studies on a regular basis to ensure establishment of reasonable fees.

e. Encourage the growth or relocation of industries that generate local tax revenue and employment.

f. Encourage planned development as it also generates local tax and employment.

g. Maintain the definition of "legally available" as those legal mechanisms which are not prohibited by law in the State of Arizona at the time the project is approved.

Assessing a fair cost covers the impacts of new development while freeing up revenues that can be used to address existing deficiencies in infrastructure and services. Achieving this balance furthers the goal of meeting infrastructure and services within designated Focused Development Investment Areas and benefits the County, the community and new development. The fair share cost of new development is intended to cover only the additional impact of the new development on infrastructure and services. It is not intended to cover the impacts of previous development or maintenance decisions.

Goal: 4 Achieve Fairness in Allocating the Costs of New Development

Policy 1: Balance public and private interests to achieve fairness in allocating the costs of new development with sensitivity to impacts on housing costs and housing affordability in the region.

Policy 2: Recognize the non-monetary burden that places a cost on development in the form of time delays, land set-asides, or expensive entitlement processes.

Policy 3: Recover fair share costs (defined as the total capital costs of facilities and equipment minus developer credits and funds dedicated to a project).

Policy 4: Establish development incentive areas or other incentives, such as an Infill Incentive District, Mixed-use District or Arts District that may allow reduced cost recovery obligations for projects to foster development activity within those areas as well as other community benefits such as additional recreation, affordable housing, and mixed uses.

Goal 4 Implementation Measures:

a. Ensure that the fair share charged to a project includes only those costs associated with that project and does not require the developer to improve service levels of existing deficiencies in public facilities.

b. Provide that the identified benefits of the new public facilities and services are received by the development charged with paying for them.

c. Provide that a development is charged only for its proportionate share of the benefits received by the new public facilities and services.

d. Conduct studies to determine future benefits associated with new revenues generated from growth areas and economic development corridors.

e. Allow infrastructure to be incrementally brought on line, or phased in order to not overly burden the initial phases of a project and put the overall success of the project at risk.

f. Consider new opportunities for using best practices in public/private partnerships.

Goal: 5 Address the Impacts of Development on Regional Systems

Policy 1: Seek local and regional cooperation to address the impacts of development on regional systems and to identify new or enhanced revenues for regional infrastructure.

Goal 5 Implementation Measures:

a. Work collaboratively with Arizona Department of Transportation, Pima Association of Governments, Native Nations and Tribes and adjacent jurisdictions in seeking new and additional revenue-sharing opportunities from State or Federal sources for designing, constructing, and maintaining facility improvements that impact and/or benefit the region.

b. Work collaboratively with regional agencies to conduct regional studies that determine if, and how, operations and maintenance costs of capital facilities can be assessed and allocated on a fair share basis.

c. Working collectively with other counties, seek new or additional revenue-sharing opportunities from the State of Arizona.

Supplemental revenues assist the County in attaining the long-term viability and fiscal solvency required to become a healthy community. The Background and Current Conditions Volume lists a variety of funding mechanisms currently available to the County. The Implementation Volume lists a variety of funding sources that could become available to the County.

Goal: 6 Identify and Secure Additional Revenue Sources

Policy 1: Identify additional revenue sources to provide supplemental revenues, and ensure that adopted Levels of Service standards are maintained.

Goal 6 Implementation Measures:

a. Consider advocating to amend the State's revenue structure to allow its primary or secondary property tax structure to provide additional resources for facilities and services if necessary to implement the Comprehensive Plan vision.
b. Pursue available grants and loans from federal, state and regional sources that can provide financial assistance to the County, property owners, investors and developers to complete new development projects.
c. Consider prioritizing public maintenance of infrastructure improvements by determining hierarchy of which infrastructure improvements should be accepted into County maintenance and conditions depending on critical importance to the County.
d. Assign costs for maintenance over a long term budget, and budget for costs.
e. Consider Government Property Lease Excise Tax (GPLET) for County use and propose amendments to ARS as appropriate.

7.3 Available Mechanisms to Fund and Finance Development

The County has a menu of options it can use to fund and finance development costs to allow the public and private sectors to partner and find the best cost recovery approach for each new development. The County also has the flexibility to adjust as additional methods become available. Currently available funding options which should be fully utilized when expecting new development to pay for the cost of growth include:

1. **Pay-As-You-Go out of Current Revenues**
   This is generally considered the optimum way to pay for service expansion. Current revenues generally consist of primary and secondary property taxes, state excise use taxes, state-shared revenues, user fees, and grants. These revenues are usually necessary to fund day-to-day County operations. While all organizations would prefer to pay for items with current revenues, this is not often feasible since revenues usually follow development while most service expansions must occur prior to or simultaneously with development. Additionally, County expenditures are limited annually by the State Constitution and significant expenditures for infrastructure expansion would cause the County to exceed the limitation.

2. **Grants and Low-Interest Loan Programs**
   A variety of grants may be available to the County from federal, state, and regional agencies. The County has actively pursued and received funding from several agencies and should continue to pursue grants through the Community Development Block Grant Program (general community improvements), State of Arizona Heritage Fund (parks and recreation facilities), and the Governor's Office (health and safety). Additional existing and future funding sources should be investigated as potential financial partners.

3. **Property Taxes**
   The County currently assesses a primary property tax to provide funding for the judicial system, Sheriff, healthcare, general services, and community development. The County has a secondary property tax to fund special taxing districts such as the Regional Flood Control District and the Library District.

4. **General Obligation Bonds**
   The most commonly utilized large project financing method in the United States is the General Obligation Bond. This is an inexpensive way to finance projects because the bonds' repayment is based on the taxing authority of the jurisdiction and repaid with secondary property taxes. Voter approved property tax supports the issuance of any General Obligation Bonds.

5. **Revenue Bonds**
Revenue bonds are a method of borrowing to finance services expansions. These bonds are paid back through future revenues that are legally pledged to the bond issuer. Revenues generally utilized for debt service are Highway User Revenue Funds (payments made to the County from state taxes), and connection user fees for wastewater service. Use of these bonds must be approved by a public vote.

6. **Certificates of Participation**
These are methods of borrowing that are paid back by the County General Fund. They are not legally tied to a specific revenue stream, such as revenue bonds. These methods can be utilized by action of the County Board of Supervisors and are not subject to public vote. They are usually secured by the sale and lease back of county buildings.

7. **Development Impact Fees**
These are fees that are established by the County based on the cost of expanding services to accommodate new development. Development impact fees are then included as part of the development cost. Development impact fees can be fairly narrow in scope. Impact fees must be monitored and updated to ensure they are maintaining adequate funding levels without impeding the quality of development the County desires to attract. The County currently only charges impact fees for new development impact on the transportation network.

8. **User Fees**
These are fees that are charged for services provided by the County. The most significant user fee is for wastewater services. Other user fees include admissions to the County fairgrounds, the stadium and some park facilities. User fees cover not only operating costs but also service the debt for financing expanded services.

9. **Improvement Districts (Special Taxing Districts)**
Improvement Districts can be formed to implement a specific improvement for a particular area of the County as a special assessment district. An improvement district can only be formed by petition of the majority of the property owners in the affected area. This funding mechanism is typically used for neighborhood road improvements, street lighting, utilities and revitalization programs such as the formation of Arts District and others. The County has used Improvement Districts but for very discrete projects in specific neighborhoods.

10. **Community Facilities Financing Districts**
The property owners (generally the developer) in the area to be benefited by the project can agree to have the County assess the future property owners to pay back the cost of improvements as a property tax. Improvements can include roads, utilities and enhancements such as parks and recreation. Pima County has not used this financing mechanism to date.

11. **In-Lieu Fees:**
    These are fees that can be used to mitigate or offer alternatives to building required infrastructure such as a park. An in-lieu fee can be made instead of installing a park when the development is small.

7.4 Cost of Development Community Indicators

The effectiveness of the Cost of Development element will be reflected in the County's annual budgeting process. There are several key indicators that must be monitored as part of the budgeting process:

- Per capita revenues and expenditures should be tracked annually and compared with fiscal models, in order to maintain fiscal policy.
- The ratio of state shared revenues to local revenues should be continually monitored.

7.5 Existing Methods of Recovery

Table 1 summarizes the County's existing methods for cost recovery for infrastructure improvements. In addition to the revenue sources listed in Table 1, the County receives Highway User Revenue Funds, which includes all revenues, other than development impact fees, that come to the County for Transportation.

TABLE 7.5.a: Pima County Existing Methods of Cost Recovery

Infrastructure Type	Impact Fees	Development Agreements (Contributed Infrastructure)	Excise Tax	Property Tax	General Obligation Bonds	Revenue Bonds	Certificates of Participation	Other Fees
Wastewater		Sewer Service Agreements				x	X	Connection & user fees
Sheriff				X	X			
Flood Control				X	X			Permit fees
Transportation	X	X	X (state gas tax)	Vehicle License Tax	X	X		
Parks and Recreation				X	X			In lieu fees
Solid Waste				X	X			Private User fees
Library				X	X			