

12. COST OF DEVELOPMENT ELEMENT

New increases in tax revenues are often offset by the costs of providing facilities and services such as roads, parks and libraries, water and sewer services and sustained adequate police and fire protection. New development should pay its share of these costs. The purpose of this element is to identify the fiscal impacts created by new development and determine how these costs will be equitably apportioned. An equally important charge within the element is to address when and how costs will be assessed as well as their apportionment.

The Cost of Development Element is organized in the following manner:

- 12.a. Introduction
- 12.b. Goals, Objectives and Policies
- 12.c. Plan Implementation Framework

12.A. INTRODUCTION

The City of Peoria subscribes to the basic principles of fairness in the application of fees and taxes for new development. Revenues derived from development impact fees should reflect costs generated by the development for extension or expansion of infrastructure and services. Characteristics and timing of infrastructure improvements are matters to be determined by the citizens of Peoria.

IDENTIFYING A LEVEL OF SERVICE FOR THE COMMUNITY

The citizens of Peoria have committed tax dollars to ensuring a sufficient level of service (LOS) for the community. LOS is defined as the characteristics of City services and infrastructure that Peoria has developed over the years since its incorporation. This can be measured by the number of parks or library books, for example, that the community supports. LOS is directly related to the City's commitment to safeguard quality of life.

Impacts resulting from new residential neighborhoods and commercial development are noticeable in fast-growing cities such as Peoria. Development outpacing school construction, lagging utility and transportation infrastructure, increased public safety response times and flood control are types of situations that may arise when necessary infrastructure components are not in place concurrently with new development.

Table 12-1, *City of Peoria Level of Service Standards*, outlines the service level standards currently expected for various services supplied by the City of Peoria. Mitigation measures would likely be required for new development impacting these LOS standards. City policy supports achievement of the City LOS as soon as possible in newly developed neighborhoods.

TABLE 12-1 City of Peoria Level of Service Standards

Service	Minimum Performance Standard
Transportation	Level of Service "C" for all arterial and collector routes
Parks, Recreation and Open Space	
Neighborhood Parks	1.75 acres per 1,000 residents
Citywide Parks	1.5 acres per 1,000 residents
River Corridor and Trails	466 linear feet per 1,000 residents
Open Space	10 acres per 1,000 residents
Libraries	0.45 square feet of facilities per capita

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	1.39 volumes per capita
Water System	System designed for Peak Demand and for Fire Flow Protection
Wastewater System	System designed for a minimum flow rate of 300 gal/day/du
Fire Protection	Four minute response time, 90% of the time Five minute response time, 90% of the time in areas with homes that are fully sprinklered
Law Enforcement	Respond to citizen requests for services: 2 minutes or less for Priority 1 calls 10 minutes or less for Priority 2 calls 45 minutes or less for Priority 3 calls
Storm Drainage	No change to peak storm water run-off
Solid Waste Collection	2 residential collections per week (1 trash collection, 1 recyclable waste collection)

Achieving the LOS standard is more costly in parts of the city where growth is occurring or infrastructure is deficient. This is due to the initial expense of adding supportive infrastructure to serve these areas. In these instances separate service areas are identified to isolate costs associated with growth.

Since incorporation in 1954, the City has employed a variety of methods to determine the fiscal impacts from new development and provide a fair assessment of the associated public cost.

According to the City's "Principles of Sound Management," there are three guiding principles applicable to issues associated with development-related costs. These principles are:

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

These principles reflect City policy and are consistent with the requirements embodied within the Growing Smarter legislation with respect to assessing the costs of development. Accordingly, the *Cost of Development Element* is designed to:

- Identify various mechanisms that are allowed by law and that can be used to fund additional public services necessary to serve the development.
- Identify policies to ensure that any mechanisms that are adopted by the City under this element result in a beneficial use to the development, bear a reasonable relationship to the burden imposed on the City to provide additional services to the development and otherwise are imposed according to law.

PLANNING FOR INFRASTRUCTURE GROWTH AND IMPROVEMENTS

The City updates its 10-year Capital Improvement Program (CIP) annually, which is intended to anticipate and budget costs associated with improving the City's infrastructure. Projects are described, discussed, scheduled and budgeted in order to provide a comprehensive synopsis for the City Manager and City Council. The plan also allows for scheduling the construction of improvements so they are operational at the time of need. Improvement projects listed in the plan are directly related to the LOS the City strives to maintain for its citizens. The approved CIP reflects City policy and strategies to maintain the established LOS.

PAYING FOR GROWTH

The City of Peoria may use a number of funding strategies for new infrastructure, equipment and facilities necessitated by growth. The City collects impact fees for specific services or utilities in conjunction with building permit activity. These fees may be used to pay for needed expansion of services directly or may pay for bonds issued by the City to pay for expansion projects. Other mechanisms available to the City for funding expansion of services include:

- Primary and Secondary Property Taxes
- Transaction Privilege (Sales) Tax
- Specialty Industry Tax (such as a Hotel Bed Tax)
- Excise Tax
- Improvement Districts
- Community Facilities Districts
- User Fees

IMPACT FEES ASSOCIATED WITH NEW DEVELOPMENT

The City of Peoria collects its share of costs attributed to providing infrastructure and improvements for new growth. Generally these costs will be collected through a variety of methods, including but not limited to impact fees, public investment through varied funding sources and third party contributions. The following factors should be considered when assessing these revenue sources for infrastructure and improvements:

- The benefit of new revenue will be linked to providing retail and employment centers that are or will be located in the City.
- The benefit of regional commercial and employment centers are of utmost importance for the economic vitality of the City.
- The development of retail and employment opportunities within the City will enhance the quality of life by locating these uses in close proximity of Peoria residents.
- The use of practical and affordable standards for development should be maintained to encourage a variety of housing types and well-designed commercial/employment centers.
- The benefit of quality growth should be considered when evaluating a development and whether or not it exceeds the City's requirements.

COST CLASSIFICATION

Each City service is divided into two distinct parts - *General Operations* (i.e. energy, labor costs) and the *City's Physical Structure* (i.e. capital projects, infrastructure). General operational costs are typically funded through the collection of taxes, utility and service payments, grants and subsidies. Tax collection and revenue flows to the City associated with new development are generally used to pay for the impacts of growth affecting general operations.

The City's physical structure refers to land, buildings, vehicles, equipment and improvements to streets, utilities and other facilities owned by the City. To achieve the City's LOS goals, 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. The cost of expanding the physical structure will be borne by new development where the costs are equitable and will result in improved services or facilities necessary to the new development.

Components of physical structure costs may include land, buildings, equipment, vehicles, apparatus, concrete and asphalt construction costs, consultant costs and credits where appropriate for bond payments for the same components.

12.B. GOALS, OBJECTIVES AND POLICIES

The goals, objectives and policies provide guidance on approaching a fair and reasonable assessment of the costs for mitigating the fiscal impacts created by growth. Policies in this element advocate careful management of financial resources to maintain uniform levels of service standards.

GOAL 1:	EQUITABLY ASSESS AND MANAGE THE FISCAL AND CAPITAL IMPACTS RESULTING FROM NEW DEVELOPMENT.
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Objective 1.A:

Maintain uniform community services and standards.

Policy 1.A.1:

Identify levels of service (LOS) indicators for the delivery of City services that reflect the typical experiences of citizens and other service users.

Policy 1.A.2:

Coordinate the creation of its annual CIP with the General Plan and LOS to assure maintenance of services received by Peoria citizens.

Policy 1.A.3:

Identify components of City services affected by growth.

Objective 1.B:

Measure citywide incremental changes in land use and the effects on service level standards.

Policy 1.B.1:

Monitor leading indicators of growth and changes in land use ratios in the City.

Policy 1.B.2:

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

Objective 1.C:

Develop a plan to finance the costs associated with expansion of government operations.

Policy 1.C.1.:

Manage the provision of citywide services to maintain existing level of service (LOS) standards.

Policy 1.C.2.:

Identify fees and other revenues and funding mechanisms that may be used to pay for expansion of operations and new facilities generated by new growth.

12.C. PLAN IMPLEMENTATION FRAMEWORK

The City of Peoria maintains updated sources of information that assists in identifying projects and activities necessary for achieving LOS standards. This information, usually in the form of reports or plans, also aids the City in determining project priorities and scheduling. Project implementation must be closely balanced with the need to sustain a strong financial position. A brief summary of these sources is listed below.

CAPITAL IMPROVEMENT PROGRAM (CIP)

The Capital Improvement Program is the City’s ten-year capital spending plan. This plan is updated annually and assists the City in its efforts to coordinate design and construction programs. All project descriptions in the CIP offer detailed information on the work, cost and timing of the project and its identified revenue source.

CIP COORDINATION WITH THE GENERAL PLAN

The Peoria General Plan also addresses LOS through the various elements included in the plan. Each element identifies goals and objectives for the particular aspect of City services addressed. The plan has a 10-year horizon, over which it guides decisions that the City makes as it looks to support and enhance the LOS. Capital projects are anticipated as implementation tools of the element in which they are located.

BOND ELECTION INFORMATION

The issuance of general obligation and revenue bonds by governmental entities within the State of Arizona requires voter approval. The City of Peoria prepares a comprehensive public disclosure of capital expenditure information prior to the election date. Information prepared for the bond information brochure includes a comprehensive assessment of long-term capital needs for the City’s public works, utilities and community services projects.

DEVELOPMENT FEE REPORT

Cost assumptions are continually evaluated relative to the new impact fee structure assessed against new development. These fees are one-time charges for recovering a proportional share of capital costs. The cost analysis considers detailed study reports that address the complex legal and financial requirements associated with these fees.

CITYWIDE LOS STANDARDS

Each City service is uniquely structured to meet its Level of Service (LOS) standard. The cost appropriation methodologies for each of the cost centers listed below were developed and described as part of the 2007 Red Oak Consulting General Government Development Fee Study and the 2007 Raftelis Financial Consultants Utility Development Fee Study.

COST CENTERS IDENTIFIED IN DEVELOPMENT FEE STUDY

The cost of maintaining levels of service are identified by cost centers listed below. A methodology has been described that considers the appropriate factors for measuring the costs of these services. The methodology is then used to calculate fees that should be collected to maintain the LOS or establish the LOS in developing areas.

- Libraries
- Parks, Recreation Open Space and Trails
- Law Enforcement
- Fire and Emergency Medical
- General Government
- Water
- Wastewater
- Solid Waste

LIBRARIES

Incremental expansion is the methodology used to calculate costs for maintaining the library LOS. Cost components for library services include: (1) land for library buildings; (2) buildings and furniture; (3) library materials (books, etc.); (4) consulting for preparation of the fee. Library development fees include a small credit for bonds that have financed library construction.

PARKS, RECREATION, OPEN SPACE AND TRAILS (PROST)

Incremental expansion is also used to calculate costs of the various PROST components, which include neighborhood parks, citywide parks, open space, rivers and trails, recreational facilities, consultant costs for preparation of the fee, principal payment credits, vehicles and equipment used for these facilities. The City uses a goals and objectives approach for developing new facilities and anticipating community needs for these facilities. The City adopted a *Parks Recreation Open Space and Trails Master Plan* in 2006 containing standards for the development and location of facilities and corresponding LOS standards.

LAW ENFORCEMENT

Law enforcement uses two methodologies to determine cost equity. A buy-in approach is used for buildings while an incremental expansion approach is used for vehicles and equipment. Demand factors for law enforcement services differ among residential and non-residential areas of the City. Residential development fees are calculated on a per capita basis and then converted to an appropriate amount by size of housing using multipliers based on type.

The most equitable manner for determining non-residential costs is by using non-residential vehicle trips. The Police Department also responds to all traffic accidents in the public right-of-way, which is an additional reason to use trip generation as the measure for demand. A trip adjustment factor has been used to avoid double-counting each trip at the point of origin and point of destination. Fees to cover these costs are offset somewhat by bond credit payments. A consultant fee factor is used to cover costs associated with preparation of the fee.

FIRE AND EMERGENCY MEDICAL SERVICES

Demand for fire and emergency medical services (EMS) is based on the location of people. Desirable land for fire stations has good arterial roadway access and a central location within its service area. Fire station locations compete with other non-residential uses competing for the same site characteristics.

Both Fire and EMS services are provided to residential areas and to non-residential areas (areas containing jobs). Approximately 85 percent of the Fire Department's service requests originate in residential areas and 15 percent in non-residential areas.

Development fees pay for costs associated with land acquisition, building construction and the purchase of fire and emergency medical apparatus. Fees to cover these costs are offset somewhat by bond credit payments. A consultant fee factor is used to cover costs associated with preparation of the fee.

GENERAL GOVERNMENT

In determining General Government development fees, an incremental expansion cost approach is used to determine the need for building space and general government vehicles. Building space needs have been adjusted to allow for space used by enterprised services.

Costs are allocated to residential and non-residential sectors of the community. Services are allocated based on the location of concentrations of population, similar to the rationale used in the law enforcement methodology. Development fees pay for costs associated with land, building space, equipment and vehicles. Fees to cover these costs are offset somewhat by bond credit payments. A consultant fee factor is used to cover costs associated with preparation of the fee.

WATER SERVICES

The Utilities Department provides potable water services for the City of Peoria. Provision of services involves:

- Securing ample water reserves to guarantee a 100-year supply for City residents;
- Delivering water to water users;
- Maintaining the water system;
- Efficient use of effluent water; and
- Ensuring water quality.

The water utility accounts are managed as an “enterprise fund” which is essentially a fund established to account for operations that are (a) financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continual basis is financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Examples of Enterprise Funds are those for water, gas, and electric utilities, public swimming pools, airports, parking garages and transit systems.

The City is divided into two water service areas, On-Project and Off-Project. The names of the service areas relate to the jurisdictional boundaries of the Salt River Project (SRP). The SRP delivers surface water stored in its reservoirs to local water users located “on-project.” Surface water and well water within SRP jurisdiction may not be used outside SRP boundaries. Peoria’s boundaries in the SRP are the Arizona Canal on the north to its intersection with New River on the west.

The Off-Project service area is furnished with water from wells and from Colorado River water. The Off-Project area also has unique service issues to address. This area is primarily located in north Peoria. North Peoria contains numerous hill and mountain areas and riverbeds. Uneven topography is a challenge to any project that relies on topographic uniformity for efficiency. North Peoria is generally undeveloped and the water operations and infrastructure to service the area have only recently begun to be installed.

There are two methods of calculating service delivery charges. They are:

- System Buy-In Method
- Marginal/Incremental Cost Method

Both methods are designed to comply with the “rational nexus” test applied by the courts. The System Buy-In Method provides an estimate of the cost of delivering a unit of capacity based upon the net equity in the existing assets. The Marginal/Incremental Cost Methodology focuses on the cost of adding additional facilities to serve new customers.

Water services development fees are Water Expansion Fees for the On-Project area. The Off-Project area contains both Water Expansion Fees and Water Resource Fees. Both types of fees are calculated using the Marginal/Incremental Cost Method. The Water Resource Fee is calculated separately to recover costs that are unique to delivering water to the customers in this area.

Components of the **Water Expansion Fee** include:

- Construction of the new Greenway Water Treatment Plant;
- Construction of elevated tanks, potable wells and water storage areas;
- Cost for new transmission lines; and
- Costs for a Water Master Plan Study and expansion fee update.

Components of the **Water Resource Fee** are:

- Costs of securing additional source water from the Central Arizona Project Canal;
- Costs of securing additional source water from other owners of CAP water rights, including the Gila River Indian Community; and
- A credit for bond payments that avoids duplicate charges.

In order to provide uniform accounting for all water users, the unit of measure for establishing fees is Equivalent Dwelling Units (EDU). The EDU is a seasonal demand factor of the average daily water consumption by a typical residential customer during the five seasonal months (May through September). The EDU represents the peak demand for water on the City's water delivery system.

WASTEWATER SERVICES

The City provides wastewater services for developed areas within the City. Components for wastewater development fees are as follows:

- Costs of constructing and equipping new wastewater treatment and reclamation facilities; and
- Costs of constructing new parts of the collection system

Wastewater service costs are funded through service charges billed directly to the customer. Expansion of infrastructure, facilities and equipment to service new development funded are through development fees charged to the developer. Fees structured to fund increased capacity for new development are calculated based on the Marginal/Incremental Cost Methodology.

SOLID WASTE MANAGEMENT

The Sanitation Division of the City provides solid waste collection and disposal services to approximately 30,000 customers, including 700 commercial accounts. Solid waste collected from City customers is disposed at the Glendale landfill under an agreement between the City and Glendale.

Several factors impact the management of solid waste services. Communities exceeding 60,000 in population must allow private operators to compete for commercial customers. Competition may provide a dampening effect on growth. As growth occurs, new commercial customers may select a competing solid waste service provider. Most of the grocery store chains have their own contracts with major national solid waste companies.

Two factors that increase demand for City sanitation services are the explosive growth in residential development in the City and the "recognized need" to recycle more refuse that is discarded and collected. Increasing equipment and support facilities to maintain levels of service include the purchase of vehicles, developing storage and parking facilities and developing or contracting for vehicle and equipment maintenance.