

# FINANCE COMMITTEE MINUTES

January 25, 2001

The Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 25, 2001 at 8:00 a.m.

## COMMITTEE PRESENT

Bill Jaffa, Chairman  
Dennis Kavanaugh  
Mike Whalen

## COUNCIL PRESENT

Keno Hawker  
Jim Davidson  
Claudia Walters

## OFFICERS PRESENT

Mike Hutchinson  
Barbara Jones

### 1. Discuss and consider Impact Fee Update Report.

Assistant to the City Manager Bryan Raines addressed the Finance Committee relative to this agenda item and introduced Jim Duncan, a principal of Duncan Associates, the consulting firm that compiled the Impact Fee Update Report. (Complete report on file in the City Clerk's Office.)

Chairman Jaffa thanked Mr. Raines and Mr. Duncan for their participation in an earlier meeting regarding this issue and requested that staff provide the Finance Committee with a brief synopsis relative to impact fees and what Mesa can expect in the future with regard to such fees as the City approaches build-out.

Mr. Raines advised that in November 1997, Mesa's original impact fee study was created and that in November 1998, the ordinance became effective regarding impact fees for water, wastewater, parks, cultural facilities, libraries, fire and police facilities. Mr. Raines commented that an important component of the ordinance is the periodic assessment of the impact fees to determine the appropriateness of potential fee adjustments.

Mr. Raines explained that the Impact Fee Update Report addresses the first of a two-phase process. Mr. Raines noted that Phase I consists of updating the City's current impact fees, the examination of current debts and assets and a determination of how such assets have been modified since the ordinance's adoption. Mr. Raines said that Phase II of the study, which coincides with the ongoing review process regarding the City's General Plan, Transportation Plan and Parks Plan, will focus on new and potentially different impact fees which Mesa may wish to levy, including stormwater drainage, government buildings and arterial streets.

Mr. Raines briefly outlined the Impact Fee Update Report Phase I Recommendations (See Attachment) and indicated that the majority of the fee changes relative to the police and cultural facilities are due to the

identification of the City's asset base and replacement costs. Mr. Raines stressed that land values have dramatically increased with regard to replacement costs for such facilities. Mr. Raines also discussed the addition of marked patrol units and police helicopters as assets which were not included in the previous study.

Mr. Raines advised that the imposition of impact fees enables Mesa to recoup costs associated with growth and also for the additional capacity that is required from Mesa's facilities including fire stations, police stations, wastewater treatment plants and water treatment plants. Mr. Raines emphasized that such assessments do not entail a full cost recovery, but that staff has endeavored through its assets identification to be more complete in the City's cost recovery.

Discussion ensued relative to the fact that impact fees can be utilized to maintain the service levels which currently exist within the City, for capital facilities, to add capacity to Mesa's system, but cannot be utilized for remodeling or on an operational cost basis; the fact that the City-collected impact fees are placed in designated accounts and utilized for a specific purpose and cannot be transferred from one account to another, and the fact that it is anticipated that the impact fees will be updated at a minimum of every two years per the Council's direction.

In response to a question from Chairman Jaffa, Mr. Raines clarified that the operational costs associated with new development are a significant issue for the City and noted that a majority of the East Mesa library expansion will be funded by library impact fees.

Mr. Raines advised that the Impact Fee Update Report and a tentative schedule for public comment and ordinance adoption will be made available for public viewing on the City's web site, through the City Clerk's Office and the City Manager's Office. Mr. Raines outlined the above-mentioned timetable.

In response to questions from Committeemember Whalen relative to the potential imposition of impact fees at the Williams Gateway Airport campus, Mr. Raines advised that as new facilities obtain building permits and hook into Mesa's utilities, developers will be required to pay appropriate impact fees. Mr. Raines commented that currently, the City ordinance does not exempt Arizona State University-East or Mesa Community College from the payment of impact fees.

Committeemember Whalen requested additional input from staff relative to the establishment of an impact fee account to be exclusively utilized for the development of the Williams Gateway Airport campus.

Mr. Duncan referred to graphics displayed in the Council Chambers and highlighted various municipalities across the nation that have successfully implemented impact fees. Mr. Duncan defined the term "impact fees" as: 1. up-front charges which are levied on new development for the construction/expansion of offsite capital improvements which benefit from the contributing development, and 2. fees which must be related to capacity-enhancing growth. Mr. Duncan also spoke regarding the Rational Nexus Test, the Banberry Credit Criteria and impact fee enabling acts.

Discussion ensued relative to the fact that impact fees were first implemented in the late '70s as a replacement mechanism for traditional funding; the fact that impact fees provide adequate public facilities, promote infill and redevelopment, discharge leapfrog development, support multi-model opportunities, encourage affordable housing, and foster economic development and further regional operation.

Mr. Duncan detailed alternative fee methodologies including unit-size based impact fees, floor-area based impact fees, density-based impact fees, distance-based impact fees and multi-jurisdictional impact fees.

Additional discussion ensued regarding the Impact Fee Update Report Phase I Recommendations and the fact that there is a proposed 19% overall increase in fees; the fact that there is an increase in land costs based on recent purchases in the park system and also for fire and police facilities; the fact that potential fees for cultural facilities have increased almost 100%, and the fact that the cost of 287 marked patrol units and the police helicopters were not included in the 1997 study.

In response to a question from Councilmember Walters, Mr. Raines clarified that the Phase I Recommendations do not include the City Court system, and advised that this issue will be addressed in the Phase II study.

Councilmember Walters requested that staff consider the inclusion of open space acquisitions in the Phase II study particularly thinking in citrus and discussed the importance of ensuring that the character of those important areas is preserved.

Chairman Jaffa concurred Councilmember Walters' opinion.

In response to a question from Vice Mayor Davidson, Mr. Raines advised that due to an omission by staff, the cost of the marked patrol units was inadvertently omitted from the 1997 study; however, the current figures are not overstated and represent inventory counts based on current values. Mr. Raines added that the formulation of data relative to the updates has been a learning process for staff, and for the first time, the City has attempted to conduct an inventory of all of its assets.

In response to a question from Committeemember Whalen, Mr. Raines commented that the City has entered into a two-part contract with Duncan Associates to complete the Phase I and Phase II Recommendations. Mr. Raines explained that with regard to the Phase II timetable, dependent upon the public comment period, Council adoption of the Phase II Recommendations is slated for the third quarter of this year, with implementation of the impact fees estimated during the fourth quarter.

In response to questions from Mayor Hawker regarding the 2000 Census figures, Mr. Raines clarified that the Census Bureau data will not be available until approximately late summer, however, it is the recommendation of staff that Council adopt the proposed impact fees. Mr. Raines added that subsequent to the receipt of the Census figures, staff will provide the Council with an updated presentation.

Chairman Jaffa discussed concerns regarding City amenities, potential changes in utility fees, stormwater drainage fees, and changes in revenue streams.

Committeemember Kavanaugh commented on the thorough and concise nature of the Impact Fee Update Report and stated that it is prudent to periodically review the City's impact fees. Committeemember Kavanaugh added that the results of the report are extremely informative relative to the City's in-depth assessment of its assets. Committeemember Kavanaugh also voiced the opinion that the Phase I

Recommendations are defensible under State law and that the Phase II Recommendations will provide the City with opportunities for residential and business development.

It was moved by Committeemember Kavanaugh, seconded by Committeemember Whalen, to recommend to the Council that staff's recommendations relative to the issuance of a "Notice of Intention" to revise development impact fees following a period of public review, be approved.

Carried unanimously.

2. Adjournment.

(City Manager Mike Hutchinson advised the Finance Committee of the following meetings: Tuesday, January 30, 2001, 4:00 p.m., Utility Committee meeting and Thursday, February 1, 2001, 9:30 a.m., General Development Committee meeting.)

Without objection, the Finance Committee Meeting adjourned at 9:30 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Finance Committee Meeting of the City of Mesa, Arizona, held on the 25th day of January 2001. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this \_\_\_\_ day of \_\_\_\_\_ 2001

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BARBARA JONES, CITY CLERK

## City Council Report

Date: January 23, 2001  
To: Finance Committee  
Through: Mike Hutchinson  
From: Bryan Raines  
Subject: Impact Fee Update - Phase I  
"Citywide"

### **Purpose and Recommendation**

In November, 1998 the City of Mesa began collecting impact fees based on new methodology which provided for the recovery of additional funds to aid in offsetting the requirements of the City to meet the demands of both residential and nonresidential growth. As part of that process, the City also committed to reviewing these impact fees on a periodic basis. Attached is a report compiled by the City's consultant for impact fees, Duncan Associates, titled Impact Fee Update which has been developed as part of this review.

It is recommended that the members of the Finance Committee consider and discuss this report with the consultant and City staff then forward it to the full Council with a "Notice of Intention" to revise development impact fees after a period for public review. At the end of the public review the adjustments would be presented to Council for introduction as amendments to the City Code. The schedule for the public review will be established so as to meet statutory requirements and coincide with the beginning of the 2001/2002 fiscal year.

### **Background and Discussion**

For the purposes of simplicity, this review of impact fees has been broken into two individual phases. This report is targeted at the first of the two phases and was structured to evaluate current fees and their components and to make recommendations for potential adjustment if necessary. Also, as part of this report a survey of the fees currently being charged by other cities in the Valley has also been included.

The second phase of the impact fee review process will be to address a variety of other aspects including potential impact fees that the City is not currently charging for like arterial streets, public buildings and stormwater drainage. Also, the second phase will review options "to align the existing and proposed impact fees more closely with local growth management objectives, including promotion of infill development, redevelopment, non-traditional developments and higher density / clustered housing options." Discussions on these issues will follow throughout this year.

Phase I Recommendations

As stated, the first phase of this project has been to evaluate Mesa's current development impact fees and make recommendations for potential adjustments. June, 2000 was identified as the designated cut-off date and audited FY'99/00 financial information was used to more fully identify and value the City's capital assets and debt credits. In addition, Departments throughout the City have assisted in the identification of assets and determining current replacement values. An example of this can be seen in the full facility inventory of the City's park facilities (see Table 60).

Water meter and dwelling unit counts have been revised and when compared to the 1997 study are reflective of the City's continued growth. At the time this project was initiated it was hoped that 2000 Census figures would be available in enough detail to allow for revisions to the residents per dwelling unit factors that were initially developed in 1997. These values are not yet available thus the residents per dwelling unit factors remain unchanged from the 1997 report.

The cumulative effects of the adjustments in the various components have resulted in the development of the following recommendations (single-family detached):

<u>Facility</u>	<u>Current Fee</u>	<u>Potential Fee</u>	<u>Percent Change</u>
Water	\$ 901	\$ 904	0%
Wastewater	920	1,050	14%
Parks	559	696	25%
Cultural Facilities	59	128	117%
Libraries	322	378	17%
Fire	108	145	34%
<u>Police</u>	<u>104</u>	<u>226</u>	<u>117%</u>
Total	\$2,973	\$3,527	19%

The comparative adjustments for other types of residential development and for the various nonresidential land uses are contained on various tables throughout the report.

Public Comment and Adoption Timeframes

In order to provide time for the public review and comment on the report and in accordance with State Law (9-463.05) the following tentative schedule has been prepared:

Feb. 5, 2001	Council adopts notice of intention to adjust impact fees and sets March 19, 2001 as the date for the public hearing.
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- March 19, 2001    Public hearing and introduction of the ordinance revising the fees.
- April 2, 2001    Council adoption of ordinance revising fees.
- July 2, 2001     New fees become effective.

Following the review by the Finance Committee on January 25, the report and the tentative schedule will be made available in a variety of ways for public review. Methods of distribution will include making a printable file available on the City's website, making copies available for public review in the City Clerk's Office, distributing copies directly to those individuals and businesses who participated in the initial process in 1997 and 1998 and distributing copies upon request through the City Manager's Office.

**Alternatives**

The fees identified in this and the attached report represent the maximum permitted based on the information provided. Council may elect not to increase fees at all or adopt fees which have been increased by some lower percentage.

This alternative is not recommended as the fees have been adjusted based on the identification and valuation of City assets and are reflective of the financial, economic and asset related changes that have occurred since the initial report was developed in 1997.

As a alternative for developers, Section 5-17-6-B (4 & 5) will continue to exist allowing applicants to submit independent fee assessments to "demonstrate that the proposed land use type will produce no additional demand for a specific key public facility than were generated from such site prior to the proposed land use type."

**Fiscal Impact**

Estimating the actual fiscal impacts of the proposed adjustments are on-going. It should be noted that while it is recommended that fees be increased by 19% (single-family adjustment) over current levels, this does not automatically correlate to a equal increase in revenues. The unknown effects of a potentially changing economy and it's pressure on new construction will continue to drive the amount of development impact fee revenues the City receives.

As an update, a recap of development fee revenues for the past three fiscal years is summarized below. These three years represent one year of the Utility Development Fee / Residential Development Tax structure (FY'97/98), one year of a mixed fee structure where fees were transitioned to the new system in November, 1998 (FY'98/99), and the most recently completed fiscal year (FY'99/00) which functioned for the full year under the current impact fee structure.

<b>Fund</b>	<b>FY'97/98</b>	<b>FY'98/99</b>	<b>FY'99/00</b>
Utility Development	\$11,913,370	\$ 5,361,774	\$ 0
RD Tax	2, 562, 269	1,196, 574	0
Water Impact Fee	0	4,545,268	6,182,027
Wastewater Impact Fee	0	4,425,131	6,361,180
Parks Impact Fee	0	2,426,371	3,401,201
Cultural Facilities Impact Fee	0	316,257	383,701
Library Impact Fee	0	1,434,907	2,026,717
Fire Impact Fee	0	800,620	1,300,610
Police Impact Fee	0	730,022	1,275,355
<b>Total</b>	<b>\$14,475,639</b>	<b>\$21,236,924</b>	<b>\$20,930,791</b>

This table has been included for comparative purposes only. As proposed, the adjustments to the development impact fees would begin on July 2, 2001 for the 2001/2002 fiscal year and any change in revenues received would be the result of a combination of construction activity and the levels at which the fee are ultimately adopted.

Bryan Raines, Assistant to the City Manager

Mike Hutchinson, City Manager