

FINANCE COMMITTEE MINUTES

May 6, 2002

The Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on May 6, 2002 at 3:00 p.m.

COMMITTEE PRESENT

Bill Jaffa, Chairman
Dennis Kavanaugh
Mike Whalen

COUNCIL PRESENT

Jim Davidson

OFFICERS PRESENT

None

1. Discuss and consider authorizing an increase in the Privilege (Sales) & Use Tax License fee from \$25.00 to \$50.00.

Tax and Licensing Director Don Ayers addressed the Committee and reported that presently, the City charges a "one-time" fee of \$25.00 for issuance of a Privilege (Sales) and Use Tax License, which remains effective for the life of the license holder of that particular business. He further reported that staff proposes to increase this one-time fee from \$25.00 to \$50.00 for new applicants. Mr. Ayers stated that staff projects that the proposed fee increase would generate annual revenue in the approximate amount of \$82,000.

In response to a question from Chairman Jaffa, Mr. Ayers advised that each business location requires a separate license and must pay a separate fee.

Discussion ensued regarding how the City compares to other Valley municipalities concerning this fee, the fact that other municipalities charge this fee on an annual basis, and the fact that even after approval and implementation of the proposed increase, Mesa would remain competitive with other municipalities regarding this fee.

Committeemember Kavanaugh referred to staff's report and comparison analysis and voiced the opinion that the one-time fee is a "good deal" for businesses. He stated that because the City incurs costs annually with respect to these licenses, he would not be opposed to charging businesses an annual fee for the Privilege and Use Tax License.

It was moved by Committeemember Kavanaugh, seconded by Committeemember Whalen, to recommend to the Council that staff's recommendation to increase the permanent (one-time) Privilege (Sales) & Use Tax License fee from \$25.00 to \$50.00, be approved.

Carried unanimously.

2. Discuss and consider amending the Mesa City Code regarding development impact fees and amending the City of Mesa Utility Rates Schedule.

Deputy City Manager Paul Wenbert advised the Committeemembers that Deputy Building Safety Director Jeff Welker has assumed the administrative responsibilities associated with the issue of impact fees.

Mr. Welker addressed the Committee and introduced Clancy Mullen, Senior Associate with Duncan Associates, the City's consultant with respect to impact fees. Mr. Welker referred to staff's report concerning this matter and stated that staff recommends establishing two new development impact fees (Stormwater and General Government Development Impact Fees) and a new monthly utility fee (Stormwater Utility Fee).

Mr. Welker provided a brief overview concerning the Council's authorization to update Mesa's development impact fees in April 2001. He explained that the update contained two phases for implementation; phase one evaluated the current development impact fees and contained recommendations for adjustments, which became effective in 2002; and phase two included a review of any new impact fees the City may want to consider and also a review of options for changing the methodology used to assess, calculate and collect impact fees in an effort to remain consistent with the City's overall plan. He noted that because of a shortage of internal staff resources, staff has not completed phase two and added that arterial street impact fees is one of the complex issues that has not yet been addressed.

Mr. Welker outlined staff's proposal relative to establishing Stormwater and General Government Development Impact Fees and reported that an asset-based approach was used to evaluate these proposed impact fees. He noted that departments throughout the City assisted in the identification of the City's stormwater and general government assets and that assets were adjusted to reflect inflation replacement costs. He referred to staff's report and Duncan Associates' report concerning these fees and reported that for single-family subdivision developments, the Stormwater Impact Fee would range from \$64 - \$650 per dwelling unit, based on the number of dwelling units per acre. He further reported that the proposed General Government Impact Fee is currently assessed at \$294 per dwelling unit but noted that staff has not completed the inventory of general government facility costs and this proposed fee will be adjusted prior to the full Council's consideration of this fee.

Mr. Welker discussed the time-frame proposed by staff for public review and adoption of the proposed development impact fees, including: 1) on June 3, 2002 the Council would adopt a Notice of Intention to adopt new Stormwater and General Government Development Impact Fees and set September 9, 2002 as the date for the public hearing; 2) public hearing and introduction of the Ordinance on September 9, 2002; 3) adoption of Ordinance on September 17, 2002; and 4) new Stormwater and General Government Development Impact Fees would become effective on December 17, 2002.

Mr. Welker outlined staff's proposal concerning the establishment of a recurring monthly Stormwater Utility Fee. He explained that the proposed Stormwater Impact Fee is based on capital costs and expansion of new facilities to accommodate the needs of new development and would be assessed against new development as a condition of a building permit. He added that the recurring monthly Stormwater Utility Fee is based on operation and maintenance costs and would apply to all of Mesa's utility customers. He referred to a legal opinion authored by

Deputy City Attorney Joe Padilla, which was provided to the Committeemembers, and reported that Mr. Padilla concluded that the City could legally impose a Stormwater Impact Fee and a recurring Stormwater Utility Fee. Mr. Welker discussed the process of analyzing the basis for this fee and reported that staff proposes that the fee be assessed on a per-acre basis. He reported that using this method, single-family homes would be charged \$3.63 per month for full recovery of operation and maintenance costs. He also commented on the process of applying this method to commercial/industrial customers and stated that because the City does not have the necessary data available regarding existing commercial/industrial customers, the process would require additional staff time and energy to retrieve data from the Maricopa County Assessor's office, analyze the data and establish an appropriate billing methodology for these customers. He added that it is staff's intent to ensure that the proposed monthly fee is fair and equitable for all of the City's customers.

Mr. Welker discussed the staffing requirements related to impact fees and stated that since 1997, staff has been challenged with limited resources while continuing to work closely with the City's consultant and provide complete, accurate data. He stated that staff recommends that the Council approve additional full-time staff to be used for the purpose of administering and managing the City's development impact fee program. He reported that a comparison revealed that most Valley municipalities have staff dedicated solely for this purpose and added that Phoenix maintains 3-4 full-time staff members. He said that adding staff in this capacity would ensure the timely and accurate gathering and transmission of data to the City's consultant for development of appropriate fees.

In response to a question from Chairman Jaffa concerning the possibility of reviewing impact fees on an annual basis, Mr. Welker reported that it is possible to reevaluate impact fees on an annual basis and noted that City Code requires that impact fees be evaluated a minimum of every three years. He added that staffing resources and amendments to the consultant's contract would need to be addressed in order to facilitate annual reviews.

Further discussion ensued regarding the fact that a number of municipalities review impact fees annually, and the benefits associated with annual reviews including smaller incremental increases and improved recovery of infrastructure costs.

Chairman Jaffa voiced support concerning the consideration of annual reviews, particularly in conjunction with increased staff.

Committeemember Kavanaugh stated support for moving forward with the public comment process concerning the proposed impact fees and for conducting annual reviews. He also voiced the opinion that the revenues generated through an improved impact fee recovery process would fund the additional staff required.

In response to a question from Committeemember Kavanaugh regarding the proposed Stormwater Utility Fee and a comparison with other Valley communities, Neighborhood Services Manager Bryan Raines reported that Phoenix assesses a Stormwater Utility Fee in the Desert View area based on water line size.

Committeemember Kavanaugh voiced the opinion that the proposed Stormwater Utility Fee represents a reasonable method of recovering the cost of maintaining stormwater systems and stated support for moving this issue forward for Council consideration and for public comment.

Chairman Jaffa suggested that the City Attorney be consulted with respect to the extent maintenance and operation costs can be assessed as fees and potentially viewed as a “de facto” property tax in consideration of the Charter prohibition relative to the Council’s assessment of property taxes.

Committeemember Whalen stated support concerning the proposed impact fees although he voiced concerns regarding a “piecemeal” approach to imposing impact fees. He stated that although he has concerns regarding the proposed Stormwater Utility Fee, he supports moving this issue forward for full Council consideration. Committeemember Whalen commented on the fact that annual revenue projected in conjunction with the proposed Stormwater Utility Fee (\$9.9 million) is equivalent to the previously repealed sales tax on food.

In response to a question from Chairman Jaffa concerning the comparison of Mesa’s impact fees with other Valley municipalities, Mr. Welker referred to *Table 3 – Comparative Single-Family Impact Fees* (See Attachment) contained in the consultant’s report and stated that although the proposed impact fees will increase Mesa’s total impact fees from \$3,639 to \$4,054, Mesa remains competitive in comparison to other Valley municipalities.

Vice Mayor Davidson discussed his role and observations as a member of the National League of Cities’ Energy, Environment and Natural Resources Committee Policy Group and stressed the importance of ensuring that the City’s water, wastewater and stormwater infrastructure is adequately maintained. He commented on Mesa’s continued growth and on difficulties other cities are facing in connection with inadequate water systems infrastructure.

In response to a question from Chairman Jaffa regarding additional, appropriate impact fee adjustments the City should consider, Mr. Mullen stated that the City’s water and wastewater impact fees might be too conservative and he commented on the fact that the process used to determine these impact fees was a “buy-in” approach in contrast to the asset replacement cost approach utilized in connection with other City impact fees. He noted that although the buy-in approach was appropriate at the time the study concerning water/wastewater was conducted, because of the City’s dwindling excess water/wastewater capacity, it would be more appropriate to base these impact fees on replacement cost without depreciation at this time.

Chairman Jaffa commented on the fact that in addition to the absence of a property tax in Mesa, impact fees in the City are significantly less than other Valley communities and he spoke in support of considering a more aggressive approach with respect to impact fees.

Discussion ensued regarding the water and wastewater demands associated with growth in the eastern areas of the City, and the fact that the City’s current stormwater facilities are at a deficit service level.

Committeemember Kavanaugh stressed the importance of providing adequate water, wastewater and stormwater systems infrastructure to protect existing residents and accommodate the future growth of the City.

Mr. Welker provided a brief overview concerning the proposed General Government Development Impact Fees and the process to date of evaluating existing City buildings and

facilities not presently associated with other impact fees. He added that this process is not yet complete.

In response to a question from Committeemember Whalen concerning the future schedule relative to adjusting the City's existing impact fees, Mr. Welker reported that a review of the City's existing impact fees will be conducted during fiscal year 2003/04.

It was moved by Committeemember Kavanaugh, seconded by Committeemember Whalen, to recommend to the Council that staff's recommendations relative to amending the Mesa City Code regarding development impact fees and amending the City of Mesa Utility Rates Schedule, be approved.

Committeemember Jaffa commented on impact fees relative to parks, stated the opinion that there is a need for additional parks in the City and urged staff to evaluate the possibility of expanding impact fees relative to the development of parks.

Committeemember Whalen commented on a resident concern relative to the fact that wastewater fees are based on water consumption without consideration of landscape use.

In response to Committeemember Whalen's comments, Mr. Welker advised that residents have the option of having an additional "landscape only" water meter installed, which would preclude the assessment of wastewater fees on that particular meter.

In response to a question from Mr. Welker, Committeemembers Kavanaugh and Whalen clarified that the Motion and Second encompass staff's full recommendations, including additional staff.

Committeemember Kavanaugh requested that staff refrain from recruiting additional staff until the full Council has had the opportunity to consider the recommendations.

Carried unanimously.

Chairman Jaffa voiced appreciation to staff and Mr. Mullen for the presentation.

3. Adjournment.

Without objection, the Finance Committee Meeting adjourned at 3:45 p.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 6th day of May 2002. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

**Table 3
 COMPARATIVE SINGLE-FAMILY IMPACT FEES**

Facility	City of Mesa		Phoenix (Desert View)	Scotts- dale (north)	Chandler	Gilbert	Glendale	Apache Junction (prop.)	Peoria (north)
	Current	Potential							
Water	\$907	\$907	\$3,444	\$2,214	\$2,109	\$2,476	\$2,370		\$4,022
Wastewater	\$1,059	\$1,059	\$1,781	\$2,668	\$2,096	\$2,448	\$1,677	\$475	\$1,996
Roads			\$3,752		\$1,574	\$148	\$613	\$1,485	\$4,028
Drainage		\$121							
Parks	\$696	\$696	\$1,503		\$1,106	\$945	\$1,091	\$564	\$1,361
Cultural	\$128	\$128							
Library	\$378	\$378	\$276		\$70		\$514	\$262	\$294
Fire	\$145	\$145	\$142		\$108	\$206	\$339		\$275
Police	\$226	\$226	\$93		\$163	\$362	\$359	\$133	\$186
Gen. Govt		\$294			\$237	\$357	\$660	\$83	
Solid Waste*	\$100	\$100	\$351				\$264		\$518
Equip. Rep.			\$79						
Total	\$3,639	\$4,054	\$11,421	\$4,882	\$7,463	\$6,942	\$7,887	\$3,002	\$12,680

*Residential development tax for Mesa, used for solid waste containers

Source: City of Phoenix, Chapter 49: Water, Sewers and Sewage Disposal, from City web site, 12/31/00; City of Scottsdale Revised Code, Sec. 49-74, from Municipal Code Corporation web site, 4/30/02 (for 7,000-8,500 sq. ft. lot); Chandler City Code, Sec. 38-13, from City web site 4/30/02 (park fee includes \$410 park residential development tax, per impact fee coordinator, 4/30/02); Town of Gilbert development fees effective on or after June 11, 2001 from City web site, 4/30/02; City of Glendale, Municipal Code Book, Sec. 28-127, from city web site, 4/30/02; City of Peoria, Community Development, Building Safety Division, "Development Impact Fees," effective January 1, 2002, from City web site, 4/30/02; Apache Junction proposed fees (wastewater is current fee charged by community facilities district) from Duncan Associates, *Development Fee Update Study*, December 2001 (fee update scheduled for final public hearing May 7, 2002).

Background

Impact fees are most appropriate for communities that are growing rapidly. Mesa certainly fits that description. The City's population, which grew by about nine percent annually during the 1970s and early 1980s, is now growing at over three percent annually. The regional projections suggest that the city's growth will cease to be exponential, but the current annual growth increment of about 10,000 persons is expected to continue through the end of the current decade, as shown in Table 4.

The original impact fee study was prepared in November 1997.¹ The ordinance adopting impact fees for water, wastewater, parks, cultural facilities, libraries, fire and police facilities went into effect on November 1, 1998 (Ordinance No. 3502, adopted July 20, 1998). Minor "clean-up" amendments to the impact fee ordinance were adopted immediately after the effective date of the ordinance (Ordinance No. 3547, adopted November 2, 1998).

Concurrent with adoption of the impact fee ordinance, the City Council passed an ordinance revising the City's residential development tax (Ordinance No. 3503, adopted July 20, 1998). This excise tax imposed on new residential development had been charged at a flat rate of \$468 per dwelling unit,

¹Duncan Associates, *Development Fee/Tax Review*, November 1997.