COST OF DEVELOPMENT

XI

Inside this Chapter:

Development itself is viewed as a community economic indicator, and as such, the cost of development is an important factor to consider. A resilient community takes a balanced approach to development, proactively responds to outside changes, uses financing systems effectively, and successfully competes in the global marketplace. The growth and prosperity of a community depend upon timely provision of public facilities such as adequate utilities, roads, transit, public open space, and parks.

Regional policy is that development pays for itself; however, at the community level, there is need for infrastructure maintenance, upgrades, and expansion, as well as a need for calculated and prudent partnerships to build community infrastructure. Difficult challenges include meeting the rising demand for these services with increasingly limited budgets, understanding and utilizing all of the funding and financing mechanisms available to build, upgrade, and maintain infrastructure, and being prepared and willing to take appropriate risks.

Photo credit: City of Flagstaff

Our Vision for the Future

By 2030, the region pays for its infrastructure with fair cost sharing and private/public partnerships. Land use decisions are made to employ the most efficient infrastructure system.

Funding and Financing Mechanisms

State law requires municipalities to identify various funding and financing mechanisms that may be used to finance additional public services and infrastructure necessary, beneficial, and useful to serve new development. These services bear a fair and proportionate relationship to the burden imposed upon the community by new development, including redevelopment. To accomplish this, the City identifies the necessary public infrastructure (based on impact reports prepared by developers and approved by the City) and services needed to serve each new development or redevelopment project, the cost of that infrastructure and services, the development's fair share of those costs, and the funding and financing mechanisms available to pay the costs. Developers work with the City to find the balance of funding and financing mechanisms that best suit each project.

The City has available the following mechanisms:

a. **Bonding** – Approved municipal bonds are interest-bearing securities that are issued for the purpose of financing local infrastructure improvements. Repayment periods from a few months to 40 years allows the issuer to pay for capital projects it cannot pay for immediately with funds on hand.

b. **Dedications and Exactions** – A community can impose a variety of dedications and exactions on development to ensure the provision of public facilities. The dedications may be site specific (such as turn lanes) or off-site specific (such as increased water or sewer capacity needed to serve the development).

   Dedications are the transfer of property interests from private to public ownership for a public purpose. Dedications are usually land or the right to use land, such as easements for utilities, infrastructure, or FUTS trails; or on-site land dedicated within a development for floodplains, a public park, fire station, or school location if such facilities are needed.

   An **exaction** is the process to obtain a dedication for the greater good. It is a property law concept where a condition for development is imposed on a parcel of land that requires the developer to mitigate anticipated negative impacts of the development. Exactions are similar to impact fees, which are direct payments to local governments instead of conditions on development. Exactions must have a real nexus to the proposed development, and may be based upon direct or partial need.

   Direct need – through an analysis, if the development causes 100 percent of the need for a particular public improvement, the construction of this improvement becomes a condition of development. The developer must build or otherwise pay for the improvement needed to solely serve the development, such as a right-turn lane into the proposed development.

   Partial need – if the development causes a percentage of need for a particular public facility, for example, 20 percent of a larger intersection near but not within the proposed development, the percentage of the cost of this facility will be exacted from the development as a proportional share of a future public improvement that will support growth within an area.

c. **Development Fees – Development impact fees are one-time charges applied to offset the** additional public service costs necessary by the arrival of new residents in the area. They are usually applied at the time a building permit is issued. This can include improvements such as water and sewer systems, roads, schools, libraries, and parks and recreation facilities. The funds collected cannot be used for operation, maintenance, repair, alteration, or replacement of existing capital

Helpful Terms

A ***"Financial System"*** is how public revenues and expenditures are managed, including planning for future needs.

"Infrastructure" includes but is not limited to sewer lines, water lines, reclaimed water lines, roads, intersections, sidewalks, FUTS, landscaping in the right-of-way, gateways, and in some cases may include utilities such as electric power, data, natural gas, cable television, and telephone.

facilities and cannot be added to general revenue. Currently, the City of Flagstaff's Development Impact Fee (as of November 2012) is for fire and police capital improvements only.

d. **In Lieu of Fees** - In Lieu of fees are dollars collected from developers when, for a variety of reasons, dedications are impractical. They are different from impact fees and are not as flexible because the expenditure of those funds is for a particular use. For example, houses in several new developments may pay a fee for the future construction of a regional park in lieu of the developer(s) constructing the park at the time of development.

e. **Municipal Facility Construction** – At times, the City or County pays for and manages the construction of needed municipal facilities, such as a public works yard, courthouse, or fire house.

f. **Service Privatization** – Privatization occurs when privately provided services such as water, sewer, and fire protection are provided for a fee; within County areas where a "district" has been formed; or by private, individual resources such as an individual water well or sewer septic system.

g. **Special Taxing Districts** - Special districts provide specific services to persons living within the designated geographic area that is taxed, such as shared public improvements, landscaping, marketing, parking, and other services. Special districts perform many functions including airports, water ports, highways, mass transit, parking facilities, fire protection, libraries, parks, cemeteries, hospitals, irrigation, conservation, sewerage, solid waste, stadiums, water supply, electric power, and gas utility.

COST OF DEVELOPMENT GOALS AND POLICIES

Goal CD.1. Improve the City and County financial systems to provide for needed infrastructure development and rehabilitation, including maintenance and enhancement of existing infrastructure.

Policy CD.1.1. At the City level, provide a regular analysis of funding and financing policy alternatives needed for infrastructure development and rehabilitation.

Policy CD.1.2. Work collaboratively with private and non-profit economic development groups to provide for the most efficient and effective use of public and private development dollars.

Policy CD.1.3. Analyze the feasibility of expanding development fees within the City of Flagstaff, which may enable future development to provide for related adequate off-site improvements and facilities.

Note: Arizona state statute requires cities to analyze development fees every five years.

Policy CD.1.4. Develop a cost-benefit analysis protocol between regional economic development partners when the public is expected to invest.

Policy CD.1.5. Require that new development pay for a fair and rough proportional share of public facilities, services, and infrastructure.

Policy CD.1.6. Encourage redevelopment projects to utilize private/public partnerships in order to succeed.

Refer to reinvestment and redevelopment discussions in Chapter IX - Growth Areas & Land Use and Chapter XIV - Economic Development for more information.

Other Financing Options to Consider

In addition to the mechanisms described above, public and private development entities may consider many other forms of financing, and may work together to develop a financing package that works for each unique situation. There are numerous types of financing to consider for infrastructure projects, and the following list is not exhaustive, but lists some tools that may be considered:

1. Improvement Districts (funding mechanism source typically property tax)
    a. Community Investment Districts
    b. Community Improvement Districts
    c. Business Improvement Districts
    d. Community Facilities Districts
    e. Economic Development Districts

2. Industrial Development Authority (IDA) bonds
    a. Industrial Revenue Bonds

3. Public-Private Partnerships (P3)

4. Private Sources – financing, investment

5. Public Sources
    a. Bonds and Other Forms of Debt Financing
    b. Capital Improvement Plan (CIP)
    c. Federal Highway Funds
    d. Designation as a High Priority Project in future Transportation Appropriation
    e. Non-Highway Public Financing
    f. Tax Exempt Bonds
    g. Taxable Bonds
    h. Bond Guaranty Program

6. Grants:
    a. Surface Transportation Program (STP)
    b. STP Transportation Enhancements Program
    c. Congestion Mitigation and Air Quality (CMAQ)
    d. Bridge Replacement and Rehabilitation Program
    e. National Highway System (NHS)

7. Federal Financing Programs:
    a. Economic Incentive Zones - AZ Commerce
    b. Enterprise Zone
    c. Empowerment Zone and Enterprise Community
    d. Foreign Trade Zone
    e. Transportation Infrastructure Finance and Innovation Act (TIFIA)
    f. Railroad Rehabilitation and Improvement Financing Program (RRIF)

8. Capital Development Corporation

9. Community Development Corporation

10. Credit Enhancements

11. State Infrastructure Banks