COST OF DEVELOPMENT ELEMENT

12.0 GOALS

1. Continue to evaluate the need for, and funding for, infrastructure improvements.

2. Maintain a high credit and bond rating through smart financial practices.

3. Ensure that new development pays its fair share of infrastructure costs in order to mitigate impacts created within the City.

4. Provide adequate facilities and services concurrent with future growth.

12.1 PURPOSE

The purpose of the Cost of Development Element is to address three key issues that will be used in conjunction with other elements of the General Plan to guide the City's physical growth. The three key issues to be addressed include defining "fair share" of development costs for public services and infrastructure, outlining measures for "fairness", and identifying specific funding mechanisms that the City may use.

12.2 EXISTING CHARACTER

Government entities (federal, state, and local) are involved in allocating resources that will be used to provide basic public services and maintain, upgrade, or fund new construction of facilities. Each year the City of Eloy creates a budget that analyzes incoming revenues and then balances this to outgoing expenditures. The budgeting process sometimes requires services to be curtailed or cut in times of shortfall, or new programs may be included in times where revenues exceed expectations or expenditures. These budgets require approval during a public hearing process.

Government entities have a responsibility to administer services that either cannot be provided by private individuals and companies at a reasonable cost or where private involvement could pose ethical dilemmas. Prioritizing the following services should involve the entire community. Some of the services the City is required to provide include:

- Construct and maintain streets
- Provide adequate drinking water
- Collect and treat wastewater
- Plan for and provide adequate detention area for storm drainage
- Provide law enforcement and crime prevention
- Construct new and maintain existing parks and recreation facilities
- Provide funding for library services
- Collect and treat solid waste

COST OF DEVELOPMENT ELEMENT

12.0 GOALS

12.1 PURPOSE

12.2 EXISTING CHARACTER

- Courts
- General Services (e.g., Administrative, Finance, Planning)

In the case of Eloy, the pace of new development has been significant during the last decade (on a percentage basis). The population of Eloy grew from 7,235 in 1990 to 10,375 in 2000, an increase of 3,140, or 43 percent. DES estimates show that Eloy may have a population of +/- 19,005 people as of July 2009, which is approximately 54% growth increase over the City's 2000 population in just less than nine years.

Increases in population create strains on existing public services and funding. Due to these increases and additional demand on City services, different funding mechanisms are extremely important to the financial health of a community. Expenditures and revenues for the years 2008 and 2009 have been included within the Appendix (pg 125 - 129) to provide a snapshot in time.

12.2 DISCUSSION

Funding Mechanisms

Municipalities in Arizona have a wide variety of funding mechanisms available to help them provide the necessary services and infrastructure to serve existing and new development. When evaluating possible funding mechanisms, it is useful to consider the economic efficiency and equity of each mechanism.

Residents, elected officials, and staff of the City of Eloy should carefully consider which of the following funding mechanisms are the most appropriate to finance additional services and infrastructure associated with new development. Mechanisms available to the City of Eloy include:

- General Obligation Bonds
- Revenue Bonds
- Municipal Property Corporations
- Certificates of Participation
- Transaction Privilege (Sales) Tax
- Property Tax
- Specialty Industry Tax
- Improvement Districts
- Development (Impact) Fees
- Dedications and Exactions
- Capital Improvement Program
- Community Facility Districts
- Development Agreements
- User Fees

The City may evaluate the efficiency of each mechanism by using the following three criteria:

12.2 DISCUSSION
Funding Mechanisms

1. How effective is the financing mechanism in recovering the cost of new public services and facilities?
2. How easy is the funding mechanism to use (e.g., legal requirements)?
3. How high would debt service be (interest payments) and how quickly must the obligation be repaid?

The City may evaluate the equity of a financing mechanism by using the following three criteria:

1. Who should pay for new public services and facilities, the entire community or only the users of the facility?
2. Who is responsible for unused capacity of newly constructed public facilities to accommodate future growth?
3. Are those who pay for the financing mechanism in a position to do so?

General Obligation Bonds

General Obligation Bonds

The funds from General Obligation Bonds may be used by cities for almost any purpose. Prior to issuing General Obligation Bonds, the approval of qualified voters is necessary, which can be time consuming and costly. They are also subject to the constitutionally set debt cap that limits bond issuance capacity. The repayment of General Obligation Bonds (i.e., payment of principal and interest) is typically based on a community's property and transaction taxes.

The City of Eloy does not have any outstanding G.O. Bonds. A large proportion of this obligation is related to bonds issued by the Eloy Municipal Property Corporation (see below).

The ratings issued by credit ratings agencies are a benchmark against which to evaluate a municipality's financial health. As of the September 26, 2006, Standard & Poor's, gave the City a rating of A. This indicates that the City was considered to be in a stable position to meet its financial obligations.

Revenue Bonds

Revenue Bonds

The funds from Revenue Bonds are used to finance a specific project (e.g., a water and sewer line extension). The revenue stream from that project repays the bondholders. Revenue bonds do not require voter approval and the constitutional debt cap does not apply. The users of a project pay the cost of servicing the bonds that were issued to construct the project.

The City of Eloy has used Revenue Bonds to fund the development of the water system infrastructure. At the beginning of FY 08-09, the City had $732,845 outstanding obligations related to their system.

Municipal Property Corporations

Internal Revenue Service (IRS) Ruling 63-20 codified the ability of political subdivisions (e.g., cities) to establish tax-exempt, non-profit corporations that can issue bonds. Bonds issued by Municipal Property Corporations (MPCs) are treated as if they were issued by the political subdivision, but are not subject to voter approval or constitutional debt limits. In order to maintain their status, strict requirements are imposed by the IRS on Municipal Property Corporations related to their non-profit status, activities, and bond issuance.

Municipal Property Corporations

City of Eloy MPCs had $435,000 in outstanding debt at the beginning of FY 08/09

Certificates of Participation

Similar to tax-exempt bonds, Certificates of Participation (COP) are issued by local governments, giving private parties an interest in the ownership of property owned by the government. The property is then leased back to the government, which makes lease payments, like bond payments, to the private parties.

Certificates of Participation

Certificates of Participation are relatively complex and time consuming to issue, but provide up-front revenues, which can be used for other activities.

Transaction Privilege (Sales) Tax

Commonly referred to as a sales tax, the Arizona Transaction Privilege Tax generates revenues via sales activities. In addition to the state transaction privilege tax, municipalities may impose a transaction privilege tax within their boundaries. The revenues generated by the local transaction privilege tax may be used for almost any purpose and are paid by residents and visitors making purchases within the community.

Transaction Privilege (Sales) Tax

The City of Eloy levied the following privilege (sales) taxes at the beginning of FY01-02:
The tax rates are the same as FY08-09.

- General Sales: 3%
- Construction Sales Tax: 4%
- Restaurants/Bars: 6%
- Hotel/Motel: 7%

These taxes were expected to generate $4.7 million in revenues for the City during FY 09/10. This is equal to 42 percent of the City’s total General Fund budget.

Property Tax

Property tax revenues are generated via a tax on the assessed value of land in Arizona and are levied by the State as well as most municipalities. Property taxes are composed of a primary component and a secondary component. Primary property tax revenues are used to fund the operating expenses of local jurisdictions. Secondary property tax revenues are used to fund special obligations, such as the repayment of bonds, special district levies, and budget overrides. Primary property taxes are subject to municipal levy limits, but secondary property taxes are not subject to levy limits.

Property Tax

The City of Eloy's property tax rates were expected to generate $682,465 in revenues in FY 09/10, equal to less than 6 percent of the City's total General Fund budget.

Specialty Industry Tax

Examples of specialty industry taxes include hotel bed taxes and rental car taxes. Municipalities do not need legislative or voter approval to institute specialty industry taxes and the revenues generated may be used for public services and facilities. Nonresidents (i.e., tourists and business travelers) typically pay the community's specialty industry taxes. The City adopted a Restaurant/Bar Sales Tax (6%) and a Hotel/Motel Sales Tax (7%) in June 2001 that has provided additional municipal income to the City.

Specialty Industry Tax

Improvement Districts

Municipalities in Arizona may form Improvement Districts in which anticipated tax revenues from future development are set aside for a specific number of years and are dedicated to financing bonds supporting the future development, such as infrastructure. The additional tax revenues are typically derived from property taxes, but may also be generated by privilege (sales) taxes. Voter approval within the district boundaries is required for an Improvement District and municipalities may not use improvement district funds for recreational facilities. The cost of financing an Improvement District is the responsibility of residents and businesses located within the district.

Improvement Districts

Development (Impact) Fees

At the time building permits are issued, cities in Arizona may impose Development (Impact) Fees on landowners in a benefit area in order to finance a proportionate share of the required public services and facilities serving that development. A benefit area is a geographic area in which the public services and facilities are of direct benefit to the development.

Development (Impact) Fees

A "rational nexus test" is typically applied to development fees, with the following three legal standards to be met: A reasonable relationship exists between the cost of the public services/facilities and the level of demand from the benefit area; the development fees do not exceed the proportionate share of the costs of the public services/facilities; and the development fees are used for the benefit of the area paying the fee.

Development fees do not require voter ratification and impose a financial burden primarily on new development (e.g., growth areas). However, the legal conditions noted above may make it difficult for some communities to administer development fees.

Dedications and Exactions

Dedications and Exactions

Dedications relate to the transfer of land and/or facilities by a private owner to a public entity at no cost. This may be accomplished for such public facilities as roads, transit facilities, bike paths and pedestrian trails, parks and recreational facilities, and school sites. Exactions are payments or dedications by a landowner in return for government approval of proposed development. Examples include fees, dedications, and/or the provision of public services.

The legal requirements relating to dedications and exactions are similar to those for development fees. As such, while dedications and exactions make new development pay its own way, they can be difficult to enact and administer.

Capital Improvements Program,

Capital Improvements Program

By planning and budgeting for capital improvements such as roads and water/sewer lines, in particular geographic areas, municipalities can focus development, revitalization, or redevelopment within those areas (e.g., growth areas). By doing so, municipalities can maximize the utilization of public infrastructure and services and, thereby, spread their cost among the largest number of users. A capital improvements program (CIP) requires administrative effort in terms of planning and budgeting.

Development Agreements

Development Agreements

Cities in Arizona may enter into development agreements with property owners to protect or reserve land for public purposes, to protect environmentally sensitive land, and/or preserve and restore historic structures. An agreement may regulate the use, density, height, and other aspects of the property. Development agreements are strictly voluntary, making them appropriate only in mutually advantageous and agreeable situations. Where this is the case, development agreements can be used to attain planning goals, such as the preservation of open space or the provision of school sites, with relatively minimal effort and administrative costs.

User Fees

User Fees

User fees are imposed on the users of a service or facility. Examples include a fee to enter a park or a toll to use a bridge. Administration costs can be high in relation to user fees (i.e., fee collection), but the users of a service or facility pay the fees.

12.4 OBJECTIVES

12.4 OBJECTIVES

The objectives provide the City with direction and intent to finance future growth, development, and revitalization. The objectives are provided to help the City of Eloy achieve the community's overall vision.

1. Adopt policy to assess needs and cost for infrastructure and services that will be required by new development.

2. Maintain and improve quality, cost and levels of service.

3. Adopt equitable policies that require new development to pay its fair share in infrastructure construction.

4. Identify and evaluate funding mechanisms to provide additional public facilities and services as needed to serve new development, redevelopment, and for the improvement of facilities and services to serve existing development.