

3.11 COST OF DEVELOPMENT ELEMENT

13.11.1 GOALS

1. Continue to implement infrastructure improvements in accordance with the City’s Capital Improvement Plan.
2. Maintain a high credit and bond rating through astute and prudent financial practices.
3. Continue to administer fair and proportionate impact fees such that new development adequately mitigates its public infrastructure and facilities impacts.
4. Provide adequate facilities and services concurrent with future growth.

3.11.2 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.

3.11.3 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, and its council adopts a budget for the fiscal year (July 1 to June 30) that analyzes incoming revenues and then balances them with 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 demands can be met with revenues that exceed anticipated expenditures. The annual budget requires city council 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 issues. Prioritizing the City’s public services and

facilities includes input from the entire community. The City of Eloy currently provides the following services to its residents, businesses and visitors:

- Streets-Construction and maintenance
- Potable Water-Construction and maintenance of storage and distribution facilities
- Wastewater-Construction and maintenance of treatment and collection facilities
- Public Safety-Employ and retain law enforcement personnel and facilities
- Parks and Open Space-Construct new and maintain existing parks and recreation facilities
- Library-Provide funding for library services
- Municipal Courts-Employ and retain a judge (part-time) and support staff
- Airport-Manage a general aviation airport
- General Services (e.g., Administrative, Finance, Community Development, Community Services, Public Works) Employ and retain applicable staff to manage and guide City functions

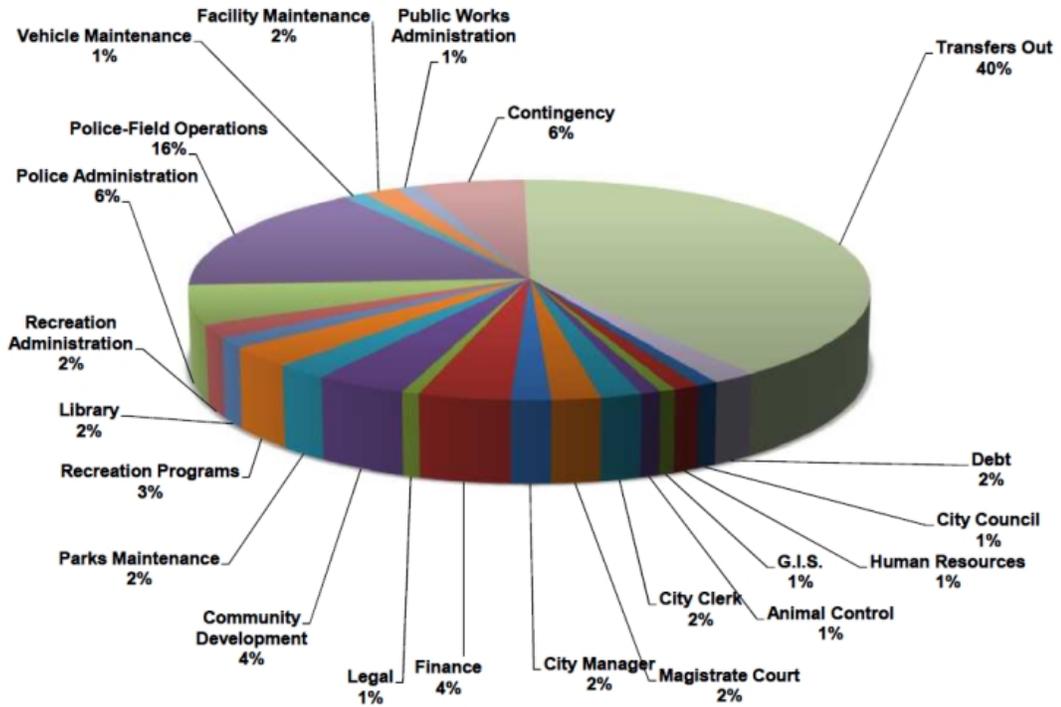
Due in large part to the Great Recession, the pace of new development has been very slow during the last decade (on a percentage basis), but has shown signs of recovery over the past several years. The population of Eloy expanded slightly from 16,631 in 2010 to approximately 17,412 in 2018, an increase of 781 residents, or less than one percent. This growth is focused on the continued development of Robson Ranch, an age restricted master planned community.

A substantial land base (113.7 square miles) and limited population and employment base creates strains to adequately maintain existing public services and facilities. Due to these conditions, a variety of funding mechanisms assist in maintaining the financial health of the City. Anticipated General Fund revenues and expenditures for fiscal year 2018-19 are illustrated on Map COD-1, Eloy Expenses and Revenues to provide a snapshot in time.

Map COD-1, Eloy Revenues and Expenses

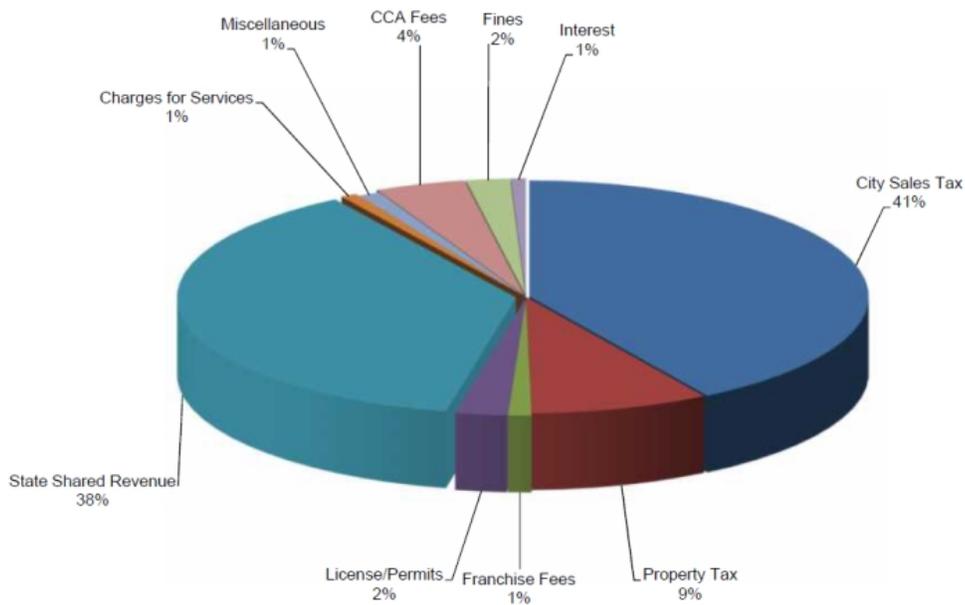
Revenues

GENERAL FUND PERCENTAGE BREAK-DOWN



Expenses

WHERE DOES THE GENERAL FUND MONEY COME FROM?



3.11.4 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:

- Capital Improvement Program
- Community Development Block Grant
- Community Facility Districts/Improvement Districts
- Dedications and Exactions
- Development Agreements
- Development (Impact) Fees
- Excise Tax Revenue Bonds
- General Fund
- General Obligation Bonds
- Grants
- Municipal Property Corporations
- Pay As You Go
- Property Tax
- Revenue Bonds
- Specialty Industry Tax
- Transaction Privilege (Sales) Tax
- User Fees/Permits/Fines

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

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?

Capital Improvements Program

The City coordinates the capital improvement program (CIP) to provide roads, water and wastewater system, police, community services, airport, and municipal services within future growth areas. In particular geographic areas, the city can focus development, revitalization, or redevelopment within such areas (e.g., growth areas). By doing so, the City can maximize the utilization of public infrastructure and services and, thereby, spread their cost among the largest number of users.

The City currently utilizes an internal CIP prepared by staff on an annual basis. Funding of CIP projects are based on Council's priorities/objectives and needs within the community. An Infrastructure Committee is utilized for ranking road improvements on an annual basis. Funding for the CIP is generated from one-time revenues from construction sales tax, system revenues, grants, bonds and loans.

Community Development Block Grant

This grant provides funds for qualifying projects that may range from housing, public works and physical construction projects. Potential projects should meet a

demonstrated community need and benefit low-moderate income individuals, families and communities.

In the recent past, the City of Eloy has utilized these funds for housing rehabilitation and road improvement projects. These grants are administered by City staff. Future projects will be determined through a public hearing process.

Community Facilities Districts/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/Capital Facilities District is the responsibility of residents and businesses located within the district.

The City of Eloy does not currently contain any CFD's or ID's at the present time.

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 impact fees. As such, while dedications and exactions make new development pay its own way, they can be difficult to enact and administer.

The City has in the past, and will continue to utilize in the future, this mechanism.

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.

The City of Eloy has approved numerous development agreements over the past 18 years. When such timeframes have been exhausted, and no advancement of the project has taken place, the City has terminated such agreements.

Development (Impact) Fees

These are one-time fees imposed on new development to provide the incremental increase in public infrastructure and services needed to maintain the demonstrated community's level of service (as identified in the Community's adopted Infrastructure Improvement Plan (IIP) for necessary public services. Such fees may be used for infrastructure improvements or debt service for water, wastewater, storm water, drainage, flood control, library, streets, fire and police, and neighborhood parks and recreation. Such fees may not be used for operations, maintenance, and replacement or correcting existing level of service deficiencies.

The City is in the process of preparing and expects to adopt an updated IIP in Mid-2020 to continue to provide the basis for the City to require such fees from new development locating within the City's incorporated area.

Excise Tax Revenue Bonds

These bonds are repaid with excise taxes and state shared revenues. A municipal bond is issued by a state or local government to raise capital to fund projects, such as recreational parks, police facilities and municipal buildings, which are beneficial to the community. Excise Taxes, such as City Sales Taxes, State Shared Sales Taxes, State Shared Income Taxes, Vehicle License Taxes, Charges for Services, License and Fees, Fines and Forfeitures) are pledged to the payment of debt service on obligations. Excise Tax Revenue Bonds do not require voter approval and the constitutional debt cap do not apply.

The City has issued a \$6 million dollar bond in 2017 for the construction of a new City Hall. At the beginning of FY 18-19, the City has an outstanding debt of \$5,905,000.

General Fund

The monies collected by the City from local sales taxes, state shared revenues (i.e. vehicle tax, state income tax, highway funds); investment revenues, municipal fees and fines, and utility revenues comprise the general fund. A portion of such revenue could be pledged to pay the debt service on the mechanisms described in this element.

For FY 18/19, the City projects that approximately \$13.1 million will be generated (excluding any fund balances). This amount represents an increase of nearly five percent from FY 17/18. Nearly 90 of the General Fund revenues are produced from three sources: City Sales Tax (41%), State Shared Revenues (38%) and Property Tax (9%).

General Obligation Bonds

The City's ability to incur general obligation debt is by the existing limitations imposed by constitutional and statutory provisions of Arizona law, which include the requirement of a vote of the electorate to authorize such bonds. Under the provisions of the Arizona Constitution, outstanding general obligation bonded indebtedness for water, sewer, lighting, parks, open space/recreational purposes, acquisition and development of public safety, law enforcement, fire/emergency facilities and streets/transportation facilities may not exceed 20% of a municipality's net secondary assessed valuation. Outstanding general obligation bonded indebtedness for all other purposes may not exceed an additional 6% of a municipality's net secondary assessed valuation.

In FY 18/19, the City of Eloy does not have any outstanding G.O. Bond debt. Based on the valuation of property in the City (approximately \$97.8 million), and the 20% limitation, the City has the ability to borrow approximately \$19.5 million for such projects, as identified above. For any other project, the City would be limited to a maximum debt obligation of approximately \$5.8 million (6% constitutional limitation).

Grants

The ability to submit a grant exists at the federal, state, regional and private level. Such submittals can be made for transportation, water and sewer services, housing, and police in Eloy. However, it should be noted that each grant is different and typically requires a hard (cash) match, but may allow soft (in-kind services) to match grant awards.

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.

The existing City of Eloy MPCs had \$1 in outstanding debt at the beginning of FY 18/19.

Pay As You Go Funding

This mechanism is basically utilizing free cash flow to fund the identified project, which, while all projects are technically allowable, is usually a smaller maintenance or improvement project. It is the least costly method, as no debt is incurred by the governmental agency.

The City has utilized such funding for equipment, infrastructure, and other items identified in the City's Capital Improvement Plan.

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 typically 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.

The City of Eloy only imposes a primary property tax rate. For FY 18/19, the City's property tax rate (\$1.210/\$100 of assessed valuation), which is a decrease from FY 17/18, was expected to generate \$1.1 million in revenues, contributing nine percent to the City's total General Fund.

Revenue Bonds

Revenue Bonds are a municipal bond supported by the revenue from a specific project, such as a toll bridge. Revenue Bonds are municipal bonds that finance income-producing projects and are secured by a specified revenue source. 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, or the pledging component (i.e. enterprise revenues, state shared revenues, etc.) repays the bondholders. Revenue bonds do not require voter approval and the constitutional debt cap do not apply. However, the municipality would be limited by their general creditworthiness, debt burden and a debt service coverage ratio of 2.5x or higher.

The City of Eloy has used Revenue Bonds to fund the development of the water system infrastructure. At the beginning of FY 18-19, the City had \$440,294 in outstanding revenue bond obligations. In addition, the City has approximately \$8 million in outstanding Water Infrastructure Finance Authority (WIFA) loans as of the start of FY 18/19. WIFA is an independent agency of the State that is authorized to finance the construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation and other water quality facilities/projects. These debt obligations will be repaid with revenues from water and wastewater customers. The current list of WIFA projects include:

- The design and construction of Pump Station #1
- The upgrade of the lift station at Tohono #2
- The upgrade of electrical equipment at the Eloy Wastewater Treatment Plant

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 and a Food Tax (2%) in 2015 that have provided additional municipal income to the City.

Transaction Privilege (Sales) Tax

Commonly referred to as a sales tax, the Arizona Transaction Privilege Tax (Sales) 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 incorporated boundaries of the city.

The City of Eloy currently levies the following privilege (sales) taxes:

- General Sales: 3%
- Construction Sales Tax: 4.5%
- Restaurants/Bars: 6%
- Hotel/Motel: 7%
- Food Tax: 2%

Sales tax is expected to generate \$5.4 million in revenues for the City during FY 18/19. This is equal to approximately 25 percent of the City's total General Fund revenues.

User Fees/Permits/Fines

User fees are imposed on the users of a service or facility or may take the form of required permits resulting from a charge for municipal services. Examples include development fees, recreation program fees, rents and leases, court fines, etc. Administration costs can be high in relation to user fees (i.e., fee collection), but the users of a service or facility or applicant pays the fee.

For the City in FY18/19, these revenues are expected to generate approximately 2% of the General Fund revenues.

3.11.5 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. Continue to administer and enforce the adopted Infrastructure Improvements Plan policy to assess needs and cost for infrastructure and services that will be required by new development.
2. Maintain and promote adequate levels of public services and facilities.

3. Identify, evaluate and consider implementing funding mechanisms to provide additional public facilities and services for the improvement of facilities and services to serve existing development.

60 Day Draft