Cost of Development

VISION STATEMENT

Scottsdale always seeks to meet and exceed the needs and expectations of its citizens and visitors in its public service delivery operations and its infrastructure and capital facilities development. This quest has enjoyed repeated success through the years since its incorporation, a testimony to the ongoing interest and participation of the people of the community in assuring that the quality, attractiveness and livability of their neighborhoods are maintained and enhanced. Scottsdale achieves its goals of sustained and increasing quality with remarkable efficiency and cost-effectiveness, facts that are witnessed by the community continuing to have one of the lowest combined tax rates in the metropolitan area and the highest attainable bond rating in the nation for a city of its size.

Introduction

The city of Scottsdale has long held the philosophy that new development should "pay for itself" and not burden existing residents and property owners with the provision of infrastructure and public services and facilities. The purpose of the Cost of Development element is to identify the fiscal impacts created by new development and determine how costs will be equitably distributed.

The city currently uses policies for new development to participate in the improvement of public infrastructure, based in part on the size and type of development. Through the zoning process and the development review process the city can evaluate appropriate dedications, development fees, and infrastructure provision. It is important to recognize that the likelihood of large master planned communities establishing the infrastructure in large areas of the city is slimmer now than in the past. In the past, exactions from developers have been used to obtain parkland, school sites, and public easements. Growth of income from sales tax and other sources provided funding to cover the ongoing maintenance and operation of these facilities. The city will need to look to other methods, work with the private sector and advocates of specific facilities and services, and continue to be creative in providing and financing the needed community amenities.

A number of city ordinances require developer participation in public infrastructure improvement, including the Subdivision Ordinance, the Streets Ordinance, Development Fees Ordinances and a Payback Ordinance.

- The **Subdivision Ordinance** requires the dedication of rights-of-way and easements within proposed subdivisions. It further requires the improvement of on-site and frontage infrastructure within these dedications. It provides for the possible reservation of park or school sites within subdivisions.
- The **Streets Ordinance** requires the dedications of rights-of-way and associated easements for streets and alleys along with the construction of the public infrastructure within them.
- **Development Fees Ordinances** require applicants for new construction to pay a proportional share in providing the water delivery systems, sewer collection and processing systems, and water resources needed to serve the proposed construction. These fees cover the costs of acquiring water resources, processing them to meet mandated quality standards, delivering them into the general area of a development, and collecting and processing sewer flows generated by the use.

- The **Payback Ordinance** may be used by an applicant to recover prorated costs of extending water or sewer lines when they have extended them from locations not adjacent to their site. Such funds are collected and disbursed by the city and the agreement exists for a specified period of time.

Developments may participate in the improvement of public infrastructure through other means that are related to specific projects, such as city bond projects, Improvement Districts, and Community Facility Districts.

- **City Bond Projects** - In some cases in-lieu or development fee funds from a development may be combined with city bond funds to build a specific infrastructure project, particularly when there is a need to over-size the facility or there are substantial regional based demands upon the infrastructure.
- **Improvement Districts** - Where the ownership in an area is composed of a number of owners and the property sizes are relatively small, the property owners may organize an improvement district through the city to provide all or part of the public infrastructure needed to serve the area. City support is partially dependent on the proposal being a logical extension of such infrastructure facilities. The city may participate in such improvements if oversizing is desired to meet future needs in the general area or there are substantial regional-based demands on the facilities.
- **Community Facilities Districts** - These are similar to improvement districts in their function but they are used more often on large developments, particularly where the improvements may be phased over an extended time frame. They may also be used to cover certain ongoing maintenance costs.

There are other considerations where actions by development within the community may reduce the usual expected demand for public infrastructure.

- **Sprinkler Ordinance** - The requirement that all structures within the city have fire sprinklers has reduced in some areas the need for hydrants, the sizing of water lines, the amount of pumping and storage capacity and the number of fire stations and related equipment.
- **Private Facilities** - In some cases the development of private streets and recreation facilities has reduced the need for community serviced street and park facilities and reduces the ongoing maintenance costs for such facilities.
- **Joint-Use Agreements** - Where applicable and viable, joint-use agreements with school districts and flood control agencies have helped to reduce the lands and facilities needed to provide a variety of recreation and community service functions.

In 1995, the city of Scottsdale hired Tischler & Associates, a consulting firm of fiscal, economic and market analysts, to examine the fiscal impact of growth over a projected 20-year period. Tischler's work included:

- Development of a growth scenario with a detailed analysis of fiscal impact
- Analysis of an average land use prototype to determine valuation levels
- Determination of service level assumptions and the detailed costs and revenues for all city departments
- Examination of water resources and wastewater and sewer development fees

Tischler's study concluded in 1996 that growth in Scottsdale pays for itself through:

- combined development permit and inspection fees;
- increased sales and property taxes;
- high valuation of new construction; and
- development exactions.

Following Tischler's study, the city purchased FISCALS, an electronic spreadsheet model, custom-designed for Scottsdale by the consultant, to:

- provide comprehensive information on the fiscal impact of new development on all citywide operating and capital facilities demands;
- project annual net and cumulative net revenues from future development over a 20-year period; and
- enable comparative and isolated analyses of alternative growth scenarios and development proposals.

NOTE: The fiscal impact model does not include an analysis or projection of the impacts of growth on educational systems and facilities, or social services and facilities, nor does it identify or project the nature and cost of repair and maintenance of infrastructure that has become physically and/or functionally obsolescent. These capabilities can be added to the model if determined necessary and appropriate.

Currently, the input data set required by the FISCALS fiscal impact model is updated annually and includes population, dwelling units, employment, real estate market valuations, transportation capital facilities programs, current fiscal year Council-approved budget, and bond versus pay-as-you-go funding methods. The outputs of the model include General Fund and Highway User Fund operating revenues and expenditures, capital facilities needs and costs, debt service, and total net and cumulative revenues for all administrative and operating departments of the city. Growth projections and fiscal impacts are detailed and summarized for each of six Planning Zones.

see Planning Zones map in Reference Guide

The FISCALS model projects annual and 20-year population and dwelling unit changes in six different residential land use and density categories and employment, construction square footage, and valuation added in four primary employment sectors. The major assumptions incorporated in the model include:

- City Council approved and budgeted revenues and expenditures from all sources;
- operational and capital facilities service levels;
- baseline of current fiscal year budget and estimated population, housing, employment and market values;
- linear projections of population, dwelling units and employment;
- revenue structures and tax rates; and
- funding methods and inflation rates.

For purposes of periodic updating and evaluation of variable growth scenarios and development proposals, the model allows change, addition, and adjustments to/of:

- growth policies and single project scenarios;
- service levels in both municipal operations and capital facilities;
- impacts of ‘growth only’ versus ‘growth plus base budget and current infrastructure’;
- changes in the city’s organizational structure;
- changes in funding methods, bond rates, and inflation rates; and
- changes in revenue assumptions, operating costs and capital facilities costs.

The model can be used:

- as a macro model for testing growth and fiscal policy consequences;
- to analyze the fiscal impact of major General Plan amendments, new development projects, service level changes, and varying growth scenarios;
- to project the cost, timing, and general location (at the Planning Zone level) of capital facilities needs; and
- to identify/affirm new development exaction opportunities.

Scottsdale Values ...

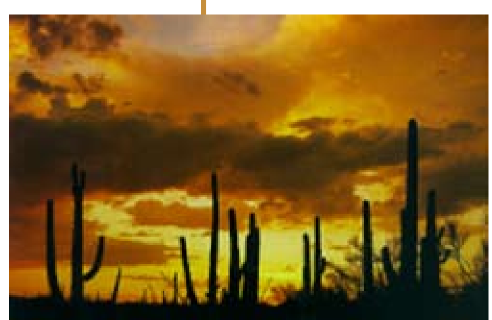
- The range, quality, accessibility, availability, functionality, suitability, sustainability, compatibility, and affordability of Scottsdale's public service delivery operations, infrastructure and capital facilities.

- The city's financial strength and well-being rated based in part on its public service delivery operations, infrastructure and capital facilities.

- Scottsdale's capability and commitment to measure and evaluate variable fiscal impacts of future growth and development, which enables the municipal organization to maintain its high public service standards and physical quality.

Goals and Approaches

1. **Present quick tabular and graphic analyses and reviews to city elective and appointive bodies and the general public by using fiscal impact modeling.**



- Support the definition, promulgation, and implementation of policies and strategies to require that development pay its fair share of the cost of public service needs generated by the development.
- Enable the identification and application of policies to ensure that the burden of development to provide needed public services will result in beneficial use to the development that is both reasonable and equitable.
- Provide relevant information support to decision- and policy-making processes affecting growth, development, and preservation.
- Stimulate discussion and idea generation regarding alternative futures of the community.
- Provide opportunities for decision makers to provide exceptions to fees when revitalization or targeted growth (e.g. in Growth Areas) is desired.

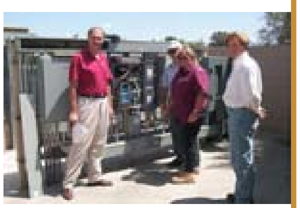
see Growth Areas Element

2. Assign a staff liaison from each city department to participate, on an as-needed basis, with the primary management team of a fiscal impact model.

- Staff teams liaisons will manage the fiscal impact model through:
  - the operation, maintenance, and periodic updating of the model;
  - the review of inputs and outputs of the model;
  - learning the operation of the model;
  - contributing to improving the utility and efficacy of the model.

3. Conduct city department evaluation, planning, and budgeting for existing and future levels of public service operations and the development of infrastructure and capital facilities by the use of fiscal impact modeling.

- Undertake comparative analyses of alternative scenarios involving growth policies, service levels, funding methods, and cost and rate structures.
- Provide visual graphic comparisons of alternative scenario impacts.
- Provide analyses of relevant public service operations and facilities for the whole city and each of its six Planning Zones.
- Use the model as a tool to assist in the preparation of departmental operating and capital facilities development plans and infrastructure repair and replacement programs for inclusion in both operating budgets and Capital Improvement Plans.
- Consider, if applicable and allowed by state law, expansion of other development impact fees beyond water and wastewater impact fees.



Related Plans and Policies:

- Scottsdale's city operating budgets and Capital Improvement Plans*
- Comprehensive Annual Financial Report*
- Fiscal Impact of Development Study, Tischler & Associates, 1996
- Departmental Multi-Year Operational and Capital Improvements Master Plans
- Operating Management, Capital Management, Debt Management, Reserve, and Financial Reporting Policies
- Cactus Corridor Area Plan (1992)
- Shea Area Plan (1993)
- Desert Foothills Character Area Plan (1999)
- Dynamite Foothills Character Area Plan (2000)
- Greater Airpark Character Area Plan (2010)
- Southern Scottsdale Character Area Plan (2010)
- Old Town Scottsdale Character Area Plan (2018)
- Sustainability Indicators Report
- CityShape 2020 Comprehensive Report, October 1996
- Shared Vision Report, December 1992
- Community Facilities Districts policy
- Improvement District policy
- Comprehensive Adopted Financial Policies
- Public Safety Personnel Retirement System Pension Funding Policy
- Economic Development Strategic Plan (2015)
- Five Year Strategic Tourism Plan (2013)
- Economic Development FY 2017/18 Annual Report - Enhancing Employment Centers (2018)
- City of Scottsdale Fiscal Sustainability Analysis (2011)
- City of Scottsdale General Plan Economic Analysis: Development Forecast Update (2011)

*updated annually