DRAFT

MINUTES

DEVELOPMENT FEE WORKING GROUP

June 24, 2009 4:00 p.m.

San Tan Conference Room

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1. **Call to Order and Roll Call**

   The meeting was called to order at 4:02 p.m. At roll call the following people were in attendance:

Committee Members:	**Town Staff**:
Council Member Barney	Paul Gardner
Council Member Brown	Tom Condit
Ryan Desmond	Wendy Kaserman
Carson Brown	Kevin Johnson, Finance Analyst
Brian Frakes	Laura Moats, Community Dev. Assist.
Thom Schuett	
Rustyn Sherer	
Dan Jackson, *Economists.com*	
Rus Brock arrived at 4:15 p.m.	

2. **Welcome and Opening Comments**

   Council member Barney made the introductions, informing the group that he has been asked to Chair this Committee. He stated the purpose of the meeting is not to decide how much the fee will be, but to ensure the process followed in implementing the fee is correct and necessary. The Committee will be tasked with determining the methodology for implementing the impact fee and determining what it will be.

There was a round table introduction of Committee members.

3. **Review of Objectives**

Wendy Kaserman stated this first meeting is to look at the study, the assumptions in it, the methodologies, and scrutinize this portion of the study; not necessarily looking at what the fee should be right now, but the methodology. She stated in the past, the development fee working group has been an advisory board that does not take formal vote/action, but does review and make recommendations to Council.

Paul Gardner, Utility Services Director and former Director of Queen Creek Water Company, provided background information on the services provided by the Water Company and a history of connection and impact fees, relating to s study compiled by Carollo Engineers that addressed redundancies, capacity, service delivery and improvements on the water system. The resulting recommendations led to Queen Creek Water Company being the first utility in the State to adopt a hook-up fee through the Arizona Corporation Commission (ACC). The water company had the lowest fee in the state governed by the ACC. Working with Commission, the water company added $250 for a fire pull fee to arrive at a basic connection fee that was approximately $1,000 under the average of surrounding providers. During this run-up time frame of 8,000 connections that were added between adoption and acquisition by the Town, the difference of the hook-up fees left $7 million on the table that could've been used for system improvements. The existing capacity is adequate for residents; however in moving forward, it was necessary to solicit the services of Economists.com to predict future demand (commercial and housing needs) and balance that with wells, pumping capacity, and storage capacity. Mr. Gardner stated the hook-up/development fees were implemented in the early 1990s and have not been adjusted since that time. He explained any fees collected at the time could not be earned on as a company and a partner was needed to have a higher rate of return on earnings. Mr. Gardner explained the operating differences between the water company in the private sector versus as a municipal utility. He stated the purpose of this study is to formulate an orderly manner for coming up with infrastructure for future growth that includes necessary engineering that will facilitate a system at build-out that can deliver a high quality product.

4. **Why the Need for a Water Development Fee**

Dan Jackson, Managing Director and Chief Executive of Economists.com introduced himself, stating he has worked with the Town during the last 5 years doing a variety of studies relating to the acquisition of the water company and its incorporation as a municipal utility. He stated Economists.com assisted the Town in a series of rate adjustments ensuring fully funded costs of utilities while also providing superior quality water and sewer service. The Town is now implementing a series of modest rate adjustments to be able to pay xpenses on the capital investments required to maintain the system. He explained another issue is the proper setting of a development fee. The purpose of his presentation is to talk about development fees, how they are calculated and how this particular one included in the Study was calculated.

Mr. Jackson explained the implementation of a development fee is both an economic and community decision because when a Town adds new connections to accommodate growth, it incurs costs. The Town is tasked with deciding if costs should be paid by existing residents, new development or a combination of both.

Mr. Jackson explained the finalized study illustrates the calculation of a maximum fee; however, the Town is not obligated to implement the maximum fee. It can impose anything up to, but not above, the maximum fee.

Rus Brock arrived at 4:15 p.m.

5. **<u>Presentation on Water Development Fees Calculation Methodology</u>**

Mr. Jackson's presentation included the following:

WHAT IS A DEVELOPMENT FEE

Definition : one time charge paid by new development to finance construction of public facilities needed to serve it.

- Fees are calculated using a defined methodology that is endorsed by industry experts and used by cities nationwide.
- By implementing development fees, cities ensure that existing rate payers are not funding the cost of new development.
- Revenues from development fees cannot be used for personnel, or operating expenses – only for capital costs to serve new development (a city does not profit from implementing a development fee – only covering costs for service).

- Will not subsidize any other town operation.

IMPLEMENTATION ISSUES

- Development Fees are not designed to "control" growth.
- Infrastructure Improvement Plan (IIP) is critical element of development fee – must be reasonable, reliable and defensible.
- Growth and cost dynamics can change; important to periodically review development fees.
- Development Fee and infrastructure improvement Plan must be adopted according to a schedule outlined by ARS 9-463.05.

IMPLEMENTATION SCHEDULE

The development Fee Implementation schedule is a 165-day process, including notice of public hearing, public hearing, adoption of development fee and effective date of fee.

CALCULATION METHODOLOGY

Includes 5 steps :

- Forecast Volumes, customer growth (ERUs) and New Capacity
- Calculate Growth-related Infrastructure Improvement Plan
- Add interest on Debt used to fund IIP
- Subtract interest Paid by current Ratepayers
- Divide Net Expenses by new Capacity to Determine Development Fee

Thom Schuett asked why what current ratepayers are paying wouldn't be added in before collecting impact fees. He noted *Step 4* says subtract out what ratepayers have paid, and questioned why this wouldn't be added in since current ratepayers are for some time supporting expenses brought on by new growth.

Mr. Jackson responded by providing the following example:
The fourth step in process is to calculate credit for the amount of debt service expected to be paid by new connections in planning period. This is a calculation made by new connections that come during a 10-year period.
A home bought in 2010 pays a development fee, but pays a higher rate because debt service is included. This homeowner can make the argument that he's paying a development fee plus part of the debt service, essentially being double-dipped to help fund the new development. Mr. Jackson stated

the Town must make a series of assumptions on what is reasonable for the future. Additional discussion ensued on this topic.

Mr. Brock referred to page 5/Step 4 of the handout and stated the word "Current" should say "future" and Interest should be "interest and principal".

CURRENT CUSTOMERS/ERUS (STEP 1)

Mr. Jackson provided the statistical background for Town of Queen Creek water users, and number of meter connections and meter size, explaining the conversion of connections to Equivalent Residential Units (ERUs). In response to a question, Mr. Jackson stated an average three-quarter inch meter uses about 341 gallons of water per day, which is approximately 11,000 gallons per month. He pointed out that this is the amount of water that is metered; however, the Town also needs to take into account how much water must be produced to meet peak demands. In order to meet consumption demands, approximately 750,000 gallons/day is needed.

FORECAST INCREASE IN CAPACITY

Mr. Jackson provided the following information: The Town's water system can produce 12.7 million gallons per day. At the end of a 10-year time period, it is forecast the Town's capacity will be just under 25 million gallons per day, equaling an increase of 12.1 million gallons per day.

In response to a question by Rustyn Sherer, Mr. Gardner stated during the highest peak demand day last year, water consumption was between 11 and 12 Million gallons. Mr. Gardner pointed out that in addition to ERUs, forecasted capacity must include enough water production for firefighting and dust control measures.

With approximately 13,000 ERUs currently, the Town will need to double the size of the system in the next 10 years.

HISTORICAL AND FORECAST ANNUAL NEW WATER ACCOUNTS

Mr. Jackson explained the historical data on water production and usage, comparing the history of the housing market, growth, etc. The information provided predicts how the market will behave in next ten years, taking a very conservative approach. Mr. Jackson stated this forecast assumes the market will remain the same for the next several years, and eventually return to normal growth in the next 5 years. Assuming a normal growth rate will return, it is important to build new infrastructure to meet new demands.

Infrastructure Improvement Plan FY2010-2019

This slide shows a calculation of just under $50 Million in infrastructure improvements in the next 10 years, only $4.2 million of which is for replacement of infrastructure. This shows that a vast majority of infrastructure improvements are growth related. Mr. Gardner stated there are not a lot of anticipated replacement costs due to the fact that the Water Company's assets were less than five years old at the time the Town acquired it.

Mr. Jackson noted these numbers represent Town infrastructure improvements only, including wells, lines, and pump stations, not including anything a developer would develop and turn over to the Town. Mr. Gardner added the transmission lines and storage sites are all off-site.

Ms. Kaserman noted the IIP study details the calculations for arriving at the $50 million.

Infrastructure Improvements Plan 2009-2019

This slide illustrates how much the Town needs to spend in the next 10 years, and when to spend it. It forecasts growth will start to pick up in 2014.

Mr. Brock noted the chart shows that expenses line up with the growth, and asked if the money wouldn't need to be spent sooner in order to stay ahead of growth.

Mr. Jackson responded part of running a water utility is to manage growth by committing to expenditures, which includes anticipating growth. This chart anticipates expenditures can be done fairly quickly and infrastructure can be added quickly. Mr. Jackson stated in high growth communities staff needs to spend a lot of time studying the market and making judgment calls.

Mr. Brock asked if the Town anticipates another fee update prior to 2014. Mr. Jackson stated it is possible, but may not be necessary. Chairman Barney explained the Council's current policy is to review the fee structure every year. The study itself may be very short, but Council does try to anticipate what is coming.

Mr. Gardner stated this process will take a lot of planning. Staff has already identified well sites, storage sites, and transmission lines; however staff has not identified what will be needed first. When it happens, approval for constructions will already be applied for. Staff has the ability to fast-track, therefore the bid process will be facilitated more quickly and the Town will have the ability to be flexible in responding to where the growth will occur.

TOTAL FORECAST BOND ISSUES

Mr. Jackson explained that in calculating the development fee, it is necessary to anticipate how much debt Town will need to issue. Step 3 shows how this amount is calculated. This step follows the IIP chart closely and totals approximately $25 Million in long-term debt. He stated this debt will not be issued annually, due to issuance costs and interest on monies not being used. Mr. Jackson complimented the Town on how it has developed and managed growth in the last 10 years, stating there are a lot of different aspects to be managed properly.

DEBT SERVICE INTEREST ADJUSTMENT

This slide illustrates the calculation of interest on the amount of debt service issued, assuming a debt service amount of $25 Million. It calculates how much interest should be included in the development fee, based on percentage of growth.

The chart shows calculations for a 10-year time period. If the time frame of the debt service is extended, then the interest adjustment could be extended as well. The interest calculation illustrated is very conservative, showing actual interest of $6.6 million and a net present value of just under $4 million.

DEBT SERVICE CREDIT

This slide illustrates the calculation of debt service credit per ERU, per month.
Over a 10-year planning period, ERUs will pay a total of 1,640,320 monthly bills.
Each bill will include approximately $6 in principal and interest. The estimated total credit over this time period is 3,991,540.

DEVELOPMENT FEE CALCULATION

Mr. Jackson stated the development fee is calculated by dividing net expenses by new capacity. These calculations will be completed by the next meeting date.

The calculation will represent a maximum development fee by meter size. Mr. Jackson reminded the group that, under law, the Town can charge anything from zero up to the maximum, but cannot charge above the maximum.

SUMMARY

Mr. Jackson presented the following summary notes on this proposal:

- Fee structure will be easy to understand and administer
- Will encourage developers to install meters no larger than minimum size adequate for development, since fees will be based on meter sizes.
- Town will have ability, under State Statutes, to increase fees annually based on a defined adjustment factor.

Mr. Jackson pointed out highlights of the written report, stating the cost of water improvements will get high and the Committee needs to keep in mind the costs to be reimbursed in order to service growth over the next decade.

Mr. Schuett asked about including a factor in the fee that would mitigate having to repeat the process every year. Ms. Kaserman responded that since Mr. Schuett participated in the original fee impact Committee, there have been Legislative changes that will allow an inflationary factor, as long as it is noted on the fee schedule. This will alleviate the need to go through the entire process every year. Ms. Kaserman stated the first inflationary adjustment was last July.

Mr. Frakes asked how the Town determines how much debt it's willing to take on. Mr. Jackson responded the study itself includes a spreadsheet that shows the estimate on how much debt to issue and when to issue it based on factors such as anticipated development fees, interest accrued on development fees, debt to be paid, and the current balance of development fees. Due to the various factors, it is a judgment call. The beginning point is to calculate the amount needed to spend and then decide how to finance it.

Brief discussion took place on how the State Budget issue will impact this group's agenda.
Chairman Barney provided some clarifying information on items included in the bill: some impact fees would be suspended for three years, while other items would not be allowed to have an impact fee assessed at all (parks, libraries, town facilities). Mr. Barney noted the State will not take money the Town has already collected. That is not included in current bill.

6. **Discussion on Next Steps**
The next meeting date will be Tuesday, July 14. Town staff will look into the possibility of providing a conference call for people who are not able to attend in person.

Discussion took place on whether or not to provide the fees for review before the next meeting. Ms. Kaserman stated staff would like to hold off on getting fees to the Committee in case there are questions before the next meeting.

Community Development Director Condit presented an timeline for the implementation of the development fee:

- On Town Council for approval of 60-day review period – July 15, 2009
- Begin 60-day review period – July 18, 2009
- First Public Hearing at Town Council – October 7, 2009
- Second Public Hearing at Town Council – October 18, 2009
- Fee goes into effect – early February, 2010

7. **Closing Comments**

Mr. Jackson provided his contact information for anyone who has questions before the next meeting.

Council Member Barney expressed his appreciation to everyone for attending the meeting, and emphasized the importance of this development fee issue to the Town in order to keep up with growth.

8. <u>Adjournment</u>

The meeting adjourned at 5:19 p.m.

Council Member Barney, Chairperson

ATTEST:

Laura Moats, Community Development Assistant

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I, Laura Moats, do hereby certify that, to the best of my knowledge and belief, the foregoing Minutes are a true and correct copy of the Minutes of the June 24, 2009 Development Fee Working Group. I further certify that the meeting was duly called and that a quorum was present.

Dated this 25th day of June, 2009.

Passed and Approved this 14th day of July, 2009.