



DRAFT
MINUTES

DEVELOPMENT FEE WORKING GROUP

July 14, 2009 4:00 p.m.
San Tan Conference Room

1. Call to Order and Roll Call

The meeting was called to order at 1:00 p.m. At roll call the following people were in attendance:

Committee Members:

Council Member Barney
Council Member Brown
Carson Brown
Thom Schuett
Dan Jackson, *Economists.com*
Ryan Desmond arrived at 1:08 p.m.

Town Staff:

Paul Gardner
Wendy Kaserman
Kevin Johnson, Finance Analyst
Laura Moats, Community Dev. Assistant

Absent

Tom Condit
Rus Brock
Rustyn Sherer

2. Welcome and Opening Comments

Council Member Barney initiated round-table introductions and everyone introduced themselves.

3. Public Comment

Members of the public may address the Committee on items not on the printed agenda. There were no public comments.

4. **Items for Discussion and Action**

A. **Consideration and possible approval of the June 24, 2009 Minutes**

There were no changes to the June minutes. The minutes were accepted.

B. **Presentation and Discussion on Water Development Fees**

Mr. Jackson stated the discussion today would focus on the method for arriving at the maximum development fee the Town is allowed to charge. The numbers represent guidelines to help the Town decide what fee is in the best interest of the Town. Mr. Jackson reviewed the process for the construction of the proposed development fee.

- Step 1: Forecast volumes, customer growth and new capacity
- Step 2: Calculate growth-related infrastructure improvement Plan
- Step 3: Add interest on debt used to fund IIP
- Step 4: Subtract interest paid by current ratepayers (ensures rate payers are not double-dipped for same asset)
- Step 5: Divide net expenses by new capacity to determine development fee.

Mr. Jackson illustrated the Historical and forecasted *Annual New Water Accounts*, noting there was remarkable growth during the past five years.. The downturn in the economy hurt the construction industry. He stated it is anticipated growth will stay low in the next five years, and increase after 2014.

Capital Improvement Plan

The Infrastructure Improvement Plan (IIP) estimates a total of \$50 Million, 90% of which is anticipated to be growth related, with 10% replacement related. Mr. Jackson noted Queen Creek is a very new community, with water lines not older than than five years.

Water Development Fee Calculation

Mr. Jackson illustrated the calculations for reaching the development fee per ERU as follows:

1. Current and Forecast System Capacity - ERUs	
Current System Capacity	16,939
Forecast Expansions	<u>16,229</u>
Total Current and Forecasted Capacity	33,169
2. Development Fee per ERU	
Current CIP Value of Growth-Related Improvements	\$45,743,203
Interest Expense Allocated to Planning Period	\$ 6,660,322
Sub-Total	\$52,403,525
Less CIP Credit	\$ 578,114
New Value of CIP to be Paid from Development Fees	\$ 51,825,411
Forecasted Expanded Capacity	\$ 16,229
Net Water Facility Development Fee Per ERU	\$ 3,193

Mr. Jackson stated the fees are based on meter size, with the ERU development fee of 3,193 being based on a three-quarter inch meter. He added using meter sizes eliminates classifying fees by what type of business is using the water. Therefore, meter equivalency ratios are used to arrive at the fee. He stated a two inch meter is equivalent to five three-quarter inch meters equaling a fee of five times greater. In addition, different types of meters can result in different flow rates, translating into different capacity amounts.

The suggested maximum fee amounts per meter size follow:

¾"	\$ 3,193
1"	\$ 5,322
1 ½"	\$10,644
2"	\$17,031
Dev. Fee per gallon	\$ 4.26

Mr. Jackson illustrated development fee calculations based on annual inflationary adjustments from the year 2010 to 2015, showing fees per gallon. He stated that by law, the Town may automatically increase development fees annually, once the fees have been implemented. This can be done using an inflationary rate or a Construction Cost Index (CCI). This would eliminate the need to do a development fee study each time fees were increased. The annual inflationary adjustment cannot be more than the cost of servicing new development. Mr. Desmond clarified it would be "assumed" costs and Mr. Jackson agreed.

Dan Jackson pointed out it is prudent to annually review development fees to be able to adjust fees and infrastructure plans accordingly. Ms. Kaserman pointed out staff and Mr. Jackson have actually done this frequently in the past few months, since permit projections have decreased, therefore, the fee is slightly lower than it was three months ago. Mr. Jackson clarified the development fee does not support other Town services; it only reimburses the Town for infrastructure costs.

A comparison of water development fees in Arizona municipalities was illustrated, showing Queen Creek in the middle of the chart. Mr. Jackson noted several high growth areas have fees that are higher than what Queen Creek's maximum fee would be.

QUESTIONS

Mr. Schuett restated the total number of ERUs required to recover \$53M with the growth expense and stated, considering a $\frac{3}{4}$ " ERU will be 90% of all ERUS or installations, a balance of 1,370 ERUs is needed to recover the balance of 10% of the cost. He asked how this compares with the Town's growth plans, and if the plans look at a 90% growth rate.

Mr. Jackson responded the plans do consider a 90% growth rate, but reminded the group that the fees will not necessarily recover all \$44 M in the first 10 years. There will be left over capacity at the end of the 10 years. As capacity is used up, the amount will eventually be recovered.

Discussion took place on the varying meter sizes within mixed use subdivisions. Mr. Schuett asked if there will be a move away from one-inch meters. Mr. Gardner responded the Town may not necessarily move away from these because in subdivisions having a mix of lot sizes, there may be a large proportion of one-inch meters due to landscaping factors.

Discussion then followed on apartment meters. Mr. Gardner stated the development fee is based on the number of units. Some apartment buildings have four-inch meters in the front of the complex, with two-inch bypasses. There may also be separate landscape meters in apartment complexes so the landscape usage is not figured against the sewer bill.

Additional discussion took place on the comparison of $\frac{3}{4}$ " to 1" meters. Mr. Schuett noted a decrease in the number of one-inch installations from five years ago. He stated there has been an overall increase in density ratios, just figuring the new apartment complexes.

Mr. Jackson addressed current and excess capacity issues, noting how some development fee studies take the unused portion of capacity and factor into the development fee calculations. He cautioned this method is much more speculative. The study assumes Queen Creek is close to capacity, so fees are based on new growth and additional capacity in order to simplify the calculations. There is a question of whether to gamble by deferring expansion to the last possible minute, or build at prudent times.

Mr. Desmond questioned how the assumptions were developed, and the reasonableness of the study. Ms. Kaserman responded Carollo Engineers did an analysis and identified where the needs are. Mr. Gardner added that 79% of the assumptions are from the Carollo study, while the remainder is from what was already in the planning stages. In addressing Mr. Desmond's question about the reasonableness of the study, Mr. Gardner stated some items were actually thrown out because the Town did not feel they were prudent. Today's numbers are based on 2007-08 construction numbers and have changed since then. They have been greatly reduced and may change more.

Mr. Jackson and Ms. Kaserman reviewed the time frame as follows:

7/15	Public Comment Period Begins (Council action)
9/16	First Public Hearing
10/21	Second Public Hearing and possible adoption of ordinance
01/04/2010	Effective date

The Committee agreed there is no need to have additional Committee meetings.

Mr. Desmond asked how the fee is applicable to existing projects where infrastructure has already been built (existing meters) if an additional tenant comes in on the same pad.

Ms. Kaserman responded the fee is collected at the time of building permit fee issuance. In the past, if a permit was pulled on the day the fee went into effect, that new permit would pay the fee.

Mr. Gardner added that commercial and industrial buildings have a separate fee to cover fire flow. This fee will be eliminated with the new fee. Mr. Brown requested Town staff compile a list of FAQs to clarify the fees, effective dates, and which fees will be eliminated with implementation of the new development fee.

There were no further questions.

5. **Announcements**

There were no announcements.

6. **Adjournment**

The meeting adjourned at 1:52 p.m.

Council Member Barney, Chairperson

ATTEST:

Laura Moats, Community Development Assistant

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 July 14, 2009 Development Fee Working Group. I further certify that the meeting was duly called and that a quorum was present.

Dated this 15th day of July, 2009.

Passed and Approved this day of, 2009.

These are DRAFT minutes which have not yet been approved.