

Cost of Development Element

Pinetop-Lakeside differs from many other municipalities in its approach to development. Its physical surroundings make natural preservation a high priority; and, also, entail greater construction expense. The Town "owns" less of its infrastructure than is typical. Local population fluctuates with the seasons: vacationers, second home owners, tourists and year-round residents. Infrastructure and services need to be scaled to meet peak demands, but not be wasteful during other parts of the year. The cost of development is also higher due to land and material costs. There is limited land available for development and building materials must be trucked into the community from, in most cases, the metropolitan areas.

Because the Town relies on other public or private entities for many basic community services provided to homes and businesses, it does not control all of the infrastructure investments that are required to accommodate new development. State Statutes, however, require the Town to assess costs associated with provision of community services and to develop related policy.

State Statutes (ARS §9-461.05) require that *"a Cost of Development Element identifies policies and strategies that the municipality will use to require development to pay its fair share toward the cost of additional public service needs generated by new development, with appropriate exceptions when in the public interest. This element shall include:*

(a) A component that identifies various mechanisms that are allowed by law and that can be used to fund and finance additional public services necessary to serve the development, including bonding, special taxing districts, development fees, in lieu fees, facility construction, dedications and service privatization.

(b) A component that identifies policies to ensure that any mechanisms that are adopted by the municipality under this element result in a beneficial use to the development, bear a reasonable relationship to the burden imposed on the municipality to provide additional necessary public services to the development and otherwise are imposed according to law.

Concepts presented in the Town Plan, supported in this General Plan Update, propose public improvements that may be implemented over time. Trail systems, for instance, would benefit existing neighborhoods as well as proposed new development areas. Infill

and/or more intense, mixed-uses in designated nodes, again could add value to all affected properties. As infrastructure or amenities are added, a reasonable balance of financial contribution must be maintained between the "new" and the "old" so developers neither pay more than their fair share of the costs, nor Town residents pay again for capital investments to which they have already contributed.

I. EXISTING CONDITIONS

The Town of Pinetop-Lakeside exercises Home Rule powers under the State of Arizona enabling statutes (Article IX, Section 20, Subsection (6) of the Arizona Constitution) in establishing "Alternative Expenditure Limitations" for the municipality's financing. Approved by Town voters in 2007, this local authority to set flexible spending policies must be renewed every four years. Home Rule is due for reconsideration on the May 2011 municipal election ballot. The ability to adjust spending is a fundamental tool for the Town's on-going fiscal management.

A. Revenues

Sales tax revenues, historically, have funded virtually all of Pinetop-Lakeside's municipal government. Limited development impact fees were instituted in Fiscal Year 2006-07. Impact fees are included in the 2008-09 Special Assessment, shown in the table below. Collections of development impact fees reached a high of \$184,230 in FY 2007-08; however, only \$14,710 was collected through the first 10 months of FY 2009-10. The following table illustrates trends and fluctuations in municipal revenue categories:

PINETOP-LAKESIDE REVENUES BY SOURCE

	FY 1999-2000	FY 2005-06	FY 2008-09**
Taxes	3,516,168	4,777,096	5,359,400
Permits & Fees	142,295	182,608	134,941
Fines and Forfeits	57,616	69,239	80,008
Grants	252,423	105,730	931,104
Special Assessment*	164,169	120,809	147,547
Local Transportation Assistance Fund (LTAF)	21,363	19,927	20,166
Interest Income	58,543	20,136	31,376
Rents & Miscellaneous	151,487	124,533	66,349
Total	4,364,064	5,420,078	6,770,891

Source: Town of Pinetop-Lakeside Audited Town Records

* Special Assessments include Development Impact Fees which began August 2006

** FY2008-09 unaudited at time of document preparation

B. Town Budget Allocations

Municipal expenditures in Fiscal Year 2004-05 through Fiscal Year 2008-09 are shown in the following table:

PINETOP-LAKESIDE EXPENDITURES BY FUNCTION

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09*
General Government	1,009,181	1,136,972	1,854,057	1,926,532	1,625,451
Public Safety	1,309,540	1,469,481	1,637,676	1,810,217	1,833,744
Streets& Roads	1,178,023	1,444,619	1,299,195	1,570,505	1,820,575
Tourism & Recreation	582,570	800,308	648,496	703,399	866,711
Economic & Comm Devt	424,171	814,428	189,794	601,394	945,197
Capital Outlay	1,724,158	189,649	314,021	543,174	403,110
Debt Service	604,953	915,078	451,610	485,672	458,374
Total	6,834,601	6,770,535	6,394,849	7,640,893	7,942,162

Source: Town of Pinetop-Lakeside Audited Town Records

* FY2008-2009 unaudited at time of document preparation

Maintaining only essential staffing levels has historically contributed to a manageable Town budgets; however, the general economic slowdown has required reductions in many expenditure categories during Fiscal Year 2009-10 and in budget preparations for 2010-11.

C. Funding Mechanisms

Pinetop-Lakeside municipal operations, since incorporation, have been financially supported mostly by Transaction Privilege Taxes -- sales tax -- and earmarked State or Federal funds.

1. Development (Impact) Fees

Municipalities may impose development impact fees on landowners in a new developments to assume that a fair share (a proportionate share) is paid for the public facilities required to meet service demands generated by new users, commercial or residential (ARS § 9-463.05). The statutes allow municipalities to assess development fees for necessary public services. This has been interpreted to include parks, open space areas, and other community services and facilities for residential users.

residential only?
libraries, too?

For a development fee to be imposed, three standards must be met:

- 1) There must be a reasonable relationship between the cost of the public facilities for which the development fee is assessed and the service demands of the new area
- 2) The development fees assessed must not exceed a proportionate share of the costs incurred or to be incurred in providing a public facility
- 3) Development fees must be used and expended for the benefit of the area that pays the development fee.

Beginning in August 2006, the Town began to collect Development Impact Fees covering a limited selection of municipal expenditures in support of new development:

Development Impact Fees Collected

	FY 2006-7	FY 2007-8	FY 2008-9	FY 2009-10	Total
Library Impact Fees	4,587.92	3,884.17	1,486.67	730.31	10,689.07
Park Impact Fees	23,494.83	19,883.64	7,610.37	3,740.54	54,729.38
Police Impact Fees	18,407.49	14,478.38	8,254.05	1,873.75	43,013.67
Streets Impact Fees	44,754.73	103,257.33	20,070.73	3,965.61	172,048.40
General Govt Impact Fees	47,812.11	42,726.48	22,088.18	4,399.79	117,026.56
Total Impact Fees Collected	139,057.08	184,230.00	59,510.00	14,710.00	397,507.08

2. General Obligation Bonds

According to Statutes (ARS § 34-451), General Obligation Bonds, fully backed by the credit of the municipality issuing the bonds, may be issued for any lawful or necessary purpose. Often, bonds are used to cover cost intensive capital improvements such as roads, parks and equipment. Each municipality has a constitutionally set debt cap, which limits the bond issuance capacity. Prior to issuing general obligation bonds, the municipality must receive authorization by a majority vote of qualified electors at an election.

General obligation bonds are a flexible financing tool for local governments, allowing bond proceeds to be used for a variety of purposes. When the bond issue has been authorized by voters, the Town may disburse funds necessary for projects, spreading the benefits and repayment burdens of the funds uniformly throughout the community.

3. Revenue Bonds

Revenue Bonds (backed by a dedicated revenue stream) may be issued by the municipality. Larger municipalities (population of 75,000 or more) are limited to issuing revenue bonds only for utilities. The Town does not provide utility service; however, smaller communities, such as Pinetop-Lakeside, may include recreational facilities (e.g., swimming pools, parks,

playgrounds, municipal golf courses, and ball parks as mentioned in ARS § 9-521-22).

Revenue bonds do not require voter approval and the constitutional debt cap does not apply to the issuance of revenue bonds. The dedicated revenue stream for backing this type of bond is supplied by collecting user fees

4. Transaction Privilege (Sales) Tax

Similar to sales taxes, the Transaction Privilege Tax, is the State of Arizona's authorization for any municipality to impose a tax for the privilege of doing business within its jurisdiction. These taxes cover costs of a variety of public services.

The Town currently has a sales tax rate of 2.5% on most rentals, groceries, utilities and retail sales. Together with State and County taxes imposed, the current sales tax in Pinetop-Lakeside was 9.6% as of June 1, 2010.

5. Property Tax

A property tax is a tax levied on land and improvements on the assessed valuation of a specific parcel of land. For many communities, it is their primary source of revenue. The Town of Pinetop-Lakeside does not have a property tax (although Navajo County, the Sanitary District, Fire Districts, etc. do). However, because of the recent decline in revenues, Pinetop-Lakeside may need additional revenue sources. A property tax is an option and would require majority voter approval.

6. Specialty Industry Tax

Specialty Industry taxes, such as bed taxes, have been used to fund a variety public services and facilities around the State of Arizona. The

current hotel/motel tax rate in Pinetop-Lakeside is 3% paid mostly by seasonal visitors and tourists.

7. User Fees

User fees are assessed for the specific use of a service or activity. An example is a fee charged for admission to a state or county park or a museum. A user fee can be employed to defray a portion or the entire cost of a project.

8. Excise Tax

An excise tax, used by most Arizona counties, is imposed on the amount of business done and income received. County excise taxes apply to any transactions that are subject to the state's transaction privilege tax.

9. Improvement Districts

There is a statutory list of improvements (such as street lights) that can be financed and constructed by a municipal improvement district for the benefit of the property within the district. For municipalities, it does not include recreational facilities.

D. Additional Authority Related to Development Costs

Cost-sharing between public and private entities can also adjust direct development expenses in the following ways:

1. Dedications

Developers often make dedications of property, as a conveyance of land in the nature of a gift or grant, for acceptance by a public entity. For example, streets in a subdivided development are usually dedicated to local governments -- relieving the public from having to pay for the land and, in many instances, passing future maintenance responsibility to the

Town. Other dedications may be required to provide land for parks, recreational facilities, school sites, trails or local transit facilities.

2. Capital Improvements Programming (CIP)

Land development depends on having infrastructure available to serve it. Capital improvement planning is conducted by the Town for such public investments as roads, trails, drainage facilities, and transit lines. Other community service providers project future needs for wells, treatment plants, sewer and water lines.

CIP budgets allocate prioritized infrastructure investments over a period of years. This planning, revised and updated annually, plays an important part in determining the pattern of land uses in the community, as well as the direction and intensity of growth.

Local governments, in concert with other infrastructure providers, can effectively discourage or expedite the development of undeveloped areas by planning for or deferring budgets for water, sewer or roads to serve the areas.

3. Other Legal Funding Controls

Exactions

An exaction is a payment or dedication made by a developer for the right to proceed with a project requiring government approval. It can be in the form of a fee, the dedication of public land, the construction/maintenance of public infrastructure, or the provision of public services. As noted previously, the amount of the exaction must be proportional to the cost of the improvement and its purpose must directly relate to the need created by the development.

Which of these municipal legal controls does the Town currently use? Should they be mentioned or deleted?



Concurrency Requirements (Adequate Public Facilities)

The pressures of growth and concern about urban sprawl has encouraged some communities to adopt “concurrency” ordinances. These provisions are intended to prevent "leapfrog" development or discourage growth into an environmentally-sensitive area unless adequate public facilities are either in place, planned, or occur concurrent with proposed development.

Development Agreements and Development Rights Plans

Development Agreements are permitted under A.R.S. 9-500.5 for municipalities and A.R.S. 11-1101 for counties. Development agreements are voluntary, contractual arrangements between local jurisdictions and property owner(s) stipulating detailed specifications regulating the permitted uses, density, maximum height, and other aspects of the land subject to the agreement. More specifically, State statutes enable a municipality to enter into a development agreement containing “provisions for reservation or dedication of land for public purposes and provisions to protect environmentally sensitive lands” and for the preservation and restoration of historic structures.

Municipal Property Corporations

A Municipal Property Corporation (MPC) is a non-profit corporation, the obligations of which are treated as issued on behalf of a political subdivision. The Town of Pinetop-Lakeside has a MPC.

Bonds issued by the corporation do not have to be voted on by the people, and the bonds are not considered “debt” for purposes of the statutory debt limitations. Several requirements must be met to assure the MPC maintains its tax-exempt status:

- ❑ Activities are essentially “public” in nature

Name of MPC?

- ❑ Not for profit (except to retire indebtedness)
- ❑ Corporate income must not inure to any private person
- ❑ Political subdivision must have a beneficial interest in the corporation while the indebtedness remains outstanding and receive full legal title to the property upon the retirement of such indebtedness
- ❑ Political subdivision must have been approved for the corporation and its specific obligations.

Certificates of Participation (COPs)

Under this method of financing, private parties purchase COPs, which are the equivalent of tax exempt bonds. They represent an ownership interest in property belonging to a local government. The property is then leased back to the local government, which makes “lease” payments to the COP holders to cover repayment of the bond program.

II. ISSUES

The fundamental cost issue in Pinetop-Lakeside is not so much how to fund development growth, but, rather, how to collect and spend financial resources in ways that will preserve and enhance the special "small town" atmosphere. Almost everyone agrees that development for development's sake would drastically damage this unique community characteristic.

A. Two "Costs of Development"

This General Plan focuses on the ultimate long-term cost that would be exacted by degradation of the natural environment as well as on the monetary investment necessary to accommodate new development. The value placed on preserving forests, lakes, and White Mountains character isn't easily quantified. Although "fair share" costs to be paid by developers can be computed, they need to be equitable.

Pinetop-Lakeside's strategic spending on municipal improvements attempts to design facilities that are necessary, timely and properly scaled to the physical context.

Development expense incurred by the Town has to be cost-effective in both of these ways. First, whether the project is a road, trail or public building, it should relate to the surroundings and not be larger or more obtrusive than it needs to be. Second, the proposed monetary investment should take into account the variations in seasonal demand -- considering methods of accommodating peak periods without creating assets that are little used during much of the year.

B. Allocating Development Contributions

Obtaining funding to support future land acquisition, improvements and facility construction relies, in part, on development impact fees. Substantial monies have been collected to date. However, as noted, the slowed pace of new construction has reduced annual increments to these reserves. Town officials and staff, with public input, may need to reconsider some of the intended improvements for which funds have been accumulated.

Users in the developments that contributed to the impact fee accounts -- residents and business owners who bought or leased property that made development fee contributions -- are entitled to enjoy proposed benefits within a reasonable time. Different, perhaps downsized, improvements could be redesigned in line with General Plan Update goals and objectives.

C. Higher Construction Costs

It is more expensive to build in Pinetop-Lakeside than in many other locations. Transporting materials, minimal economies of scale, a shorter construction season and other factors contribute to higher costs here than elsewhere.

Land prices rose during the early 2000s as demand for developable second home lots and commercial sites peaked. As observed in the Housing Element, however, prices on ready-to-build parcels have been reducing drastically, but probably are still more expensive than in other areas. The economic downturn has also kept labor costs competitive. Still, the added development costs due to the Town's location and limited project scale need to be considered in planning for any construction, whether public or private.

The economics of development are vital to the Town, its citizens, landowners and developers. Municipal projects for which development impact fees are charged must be cost-effective. More importantly, impact fees must not act as disincentives to quality development.

High-quality construction is expected. Nonetheless, in order for either public or private improvements to overcome existing diseconomies, there is a need to be flexible in review and approval of innovative design and construction approaches.

III. GOALS AND OBJECTIVES

Cost of Development goals are concerned not only with assuring that new developments don't burden existing Town residents, but, also, that construction expenses of all kinds -- from fees to cost of materials -- don't create disincentives to quality development in Pinetop-Lakeside.

Goal 1. Expect new development to pay its fair share of facility and service costs to support its users' demand impacts.

Objective a: Require fiscal impact analyses of proposed projects' infrastructure and service expense.

Objective b: Establish/update development impact and/or user fees on a regular basis.

Objective c: Evaluate financing needs/sources for oversized improvements (i.e., proportionate cost share to be borne by general public).

Objective d: Factor in estimated operations and maintenance expenses.

Goal 2. Obtain assurances that development, public or private, will be profitable and sustainable.

Objective a: Utilize existing systems and facilities already in place.

Objective b: Encourage cost-beneficial infill development.

Goal 3. Seek new ways to raise funds from outside sources to cover some environmental protection/open space preservation costs.

Objective a: Apply for grants intended for sustaining outdoor activity/education assets.

Objective b: Design demonstration projects to solicit assistance from "green" corporations or foundations.

IV. ELEMENT FINDINGS/RECOMMENDATIONS

Pinetop-Lakeside does not incur many costs related to serving -- or promoting -- new development. By maintaining a limited Town government, there is relatively little administrative expense added to development costs. Utility providers cooperate with the Town on long-range planning and capital investment. It is essential that data collection/analysis continue to be shared so as to maintain current information regarding expected development-related expenses.

Fund-raising techniques that support the Town's basic governance philosophies are being utilized. A statutory revenue resource that specifically enables revenue collection to meet the demands of new growth, development impact fees, was first implemented in Fiscal Year 2006-07. That revenue source, in particular, should be revisited and possibly recalibrated.

Without incurring many service-providing expenses -- infrastructure investment, operations and maintenance -- the Town can focus on its basic responsibilities: police services, roadways, library, parks, and general community administration.

A. Fiscal Planning

The Town of Pinetop-Lakeside needs to come to grips with long-term public costs. Consideration of bond issues and, possibly, property taxes may turn on strengths of preference for: 1) funding large scale acquisition and outdoor amenity improvement projects with limited population growth; thereby costing current residents more with fewer newcomers to help pay, but presumably protecting community quality and property values; or 2) inviting more new development that might agree to acquire/improve open space and/or represent a greater "fair share" contributor through impact fees.

There is an obligation to expend collected impact fee funds to the benefit of properties for which they were assessed. Down-sized improvements with these earmarked monies would demonstrate the fee program's effectiveness during times when discretionary funds are scarce.

B. Cost-Benefit Trends

Although there are concerns about revenue flow, economic conditions are such that capital expenditures are less expensive today than in recent years. It is likely that economic recovery will bring about rising prices. To the extent that financing can be arranged in the relatively near future, cost savings can be realized.

Citizens have mentioned innovative "less is more" prospects for addressing perceived needs for public buildings for which the Town had been planning. For example, structural massing in mixed-use development nodes might allow for smaller public meeting, assembly, office buildings that could expand into al fresco "outdoor rooms" for various activities during peak visitor seasons.

C. Cost of Development Recommendations

Implementation actions derived from development cost issues are especially critical during the lull between growth demand peaks.

1. **Impact Fee Program Assessments** should be undertaken. Planning the expenditure of collected funds for meaningful capital projects is a first step. Recalibrating the fees, themselves, should follow.

Brainstorming options for cutting infrastructure development costs, down-sizing or deferring capital projects, utilizing built-in green building and energy savings are recommended on-going implementation exercises.

2. **Town Priorities for Development Investment** should be set. Outdoor amenities, specifically acquisition of Woodland Lake Park property and trails development, are high on Pinetop-Lakeside residents' planning priority list. Although comprehensive acquisition/improvement projects are regarded as cost prohibitive, manageable, phased and scaled-down steps should be planned early.

Development agreements, possibly with expedited Town CIP assistance, should be outlined for consideration by the United States Forest Service, conservation organizations, prospective developers and interested citizens.

3. **Need for Additional Bonding and/or Taxes** should be evaluated. Information should be gathered regarding the Town's fiscal needs projections. Computer models driven by case studies from other Arizona municipalities would be very instructive.

No precipitous action would be warranted. Reviewing the nation, State and regional economies' attempts to stabilize should be informational for Pinetop-Lakeside positioning itself.

4. **Additional Funding Sources** need to be explored. The Town and its region could become an open space preservation model. Smart building, energy efficiency/renewable any similar programs currently receiving Federal and corporate grants need to be sought for application in Pinetop-Lakeside.