CITY OF PRESCOTT

Non-Utility Development Impact Fee Report

REPORT / JUNE 12, 2024

RAFTELIS

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June 12, 2024

Mr. Lars Johnson
Deputy Finance Director
City of Prescott
201 S. Cortez Street
Prescott, AZ 86303

Subject: Non-Utility Development Impact Fee Report

Dear Mr. Johnson,

Raftelis is pleased to provide this 2024 Development Impact Fee report (DIF) to supplement the Land Use Assumptions and Infrastructure Improvements Plan (IIP) report for Streets, Fire, and Police to the City of Prescott (City).

This report details the development of the City's projected DIFs based on the results of the LUA and IIP report. The proposed fees follow the requirements set forth in the Arizona Revised Statute 9-463.05.

We would like to thank you and the entire staff engaged in this project for their assistance. Questions regarding this report and the Study should be directed to Mr. Cristiano at the contact information below.

Sincerely,
RAFTELIS

Todd Cristiano

Todd Cristiano
Vice President
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Section 1: Executive Summary

Introduction

The City of Prescott (City) retained Raftelis to conduct a comprehensive update to its streets, police, and fire development impact fees (DIF). The last study was completed in 2018. This report summarizes the methodologies used for each fee area, calculations, and the proposed FY 2025 development impact fees for the 10-year study period FY 2025 – FY 2034.

Impact Fee Statutory Requirements

Arizona's enabling legislation for development fees (ARS § 9-463.05) includes components: 1) Land Use Assumptions (LUA) for at least 10 years; 2) Infrastructure Improvements Plan (IIP); and 3) Development Fees (DIF). Given the State's two-phase adoption process, the LUA and IIP are being reviewed, refined, and approved before focusing on the development fees.

The projections of demand for necessary public services or facility expansions required by new service units set forth in the IIP is limited to 10 years. The enabling legislation also requires the fees be based on the same Level-Of-Service (LOS) provided to existing development. LOS to existing development may increase, but not by means of development fees. A final highlight of the enabling legislation is specific limitations on necessary public services. For example, only 10,000 square feet of a new library may be funded with development fees. Prescott's 2024 Development Fee Study includes the necessary public services listed below:

- Streets
- Public Safety Facilities (i.e., Fire and Police)
- Water Facilities (in a separate report)
- Wastewater Facilities (in a separate report)

Development fees are one-time payments used to construct system improvements needed to accommodate new development. The fees represent future development's proportionate share of infrastructure capacity. Development fees may only be used for capital improvements or debt service for growth-related infrastructure. In contrast to general taxes, development fees may not be used for operations, maintenance, replacement, or correcting existing deficiencies.

Arizona Development Fee Enabling Legislation

Arizona Revised Statutes § 9-463.05 governs how development fees are calculated for municipalities in Arizona. During the state legislative session of 2011, Senate Bill 1525 (SB 1525) was introduced which significantly amended the development fee enabling legislation. The changes included:

- Amending existing development fee programs by January 1, 2012
- Abandoning existing development fee programs by August 1, 2014
- New development fee program structure revolving around Land Use Assumptions and Infrastructure Improvements Plan

- New adoption procedures for the Land Use Assumptions, Infrastructure Improvements Plan, and development fees
- New definitions, including "necessary public services" which specify what categories and types of infrastructure may be funded with development fees
- Time limitations in development fee collections and expenditures
- New requirements for credits, "grandfathering" rules, and refunds

As documented in this report, the City of Prescott (City) has complied with Arizona's development fee enabling legislation and applicable legal precedents. Development fees are proportionate and reasonably related to the capital improvement demands of new development. Specific costs have been identified using local data and current dollars. With input from City staff, Raftelis determined demand indicators for each type of infrastructure and calculated proportionate share factors to allocate costs by type of development. This report documents the formulas and input variables used to calculate the development fees for each type of public facility. Development fee methodologies also identify the extent to which new development is entitled to various types of credits to avoid potential double payment of growth-related capital costs.

Necessary Public Services

Consistent with Arizona's development fee enabling legislation, development fees may be only used for construction, acquisition, or expansion of public facilities that are necessary public services. Necessary public facilities must have a life expectancy of three or more years and be owned or operated on behalf of the municipality.

Evaluation of Credits

New development should not be required to pay twice for the cost of new facilities – once through development fees and again through other taxes or fees that are used to fund the same facilities. To avoid potential double-payment, development fees may be reduced, and such a reduction is referred to as an offset or revenue credit that is incorporated into the development fee calculation. In general, offsets are only required for funding that is dedicated for capacity-expanding improvements of the type addressed by the development fee. A municipality is not required to use general fund revenue to pay for growth-related improvements.

SB 1525 amended the "offset" provision in the state enabling act to add a mandate regarding construction contracting excise tax, as highlighted in the following provision ARS § 9-463.05(B)(12):

> *The municipality shall forecast the contribution to be made in the future in cash or by taxes, fees, assessments or other sources of revenue derived from the property owner towards the capital costs of the necessary public service covered by the development fee and shall include these contributions in determining the extent of the burden imposed by the development. Beginning August 1, 2014, for purposes of calculating the required offset to development fees pursuant to this subsection, if a municipality imposes a construction contracting or similar excise tax rate in excess of the percentage amount of the transaction privilege tax rate imposed on the majority of other transaction privilege tax classifications, the entire excess portion of the construction contracting or similar excise tax shall be treated as a contribution to the capital costs of necessary public services provided to development for which development fees are assessed, unless the excess portion was already taken into account for such purpose pursuant to this subsection.*

Because Prescott does not charge a construction excise tax at a rate higher than for other types of business activities, no such offset is required.

Qualified Professionals

Qualified professionals must prepare the IIP, using generally accepted engineering and planning practices. A qualified professional is defined as "a professional engineer, surveyor, financial analyst, or planner providing services within the scope of the person's license, education, or experience." Raftelis is a financial consulting firm specializing in the cost of growth services and user charges for utilities. Our services include development fees, infrastructure funding, user fees, and cost-of-service studies. Since 1993, Raftelis has provided consulting services for local governments and utilities across the United States. The total cost of professional services for non-utility impact fees, including all meetings with staff, Mayor's Commission, and elected officials, was $57,981. The cost of professional services was allocated equally: 33% to streets, 33% to police, and 33% to fire facilities.

Methods

Development fees fund growth-related infrastructure that will benefit multiple development projects or the entire jurisdiction (usually referred to as system improvements). There are three general methods for calculating development fees. The choice of a particular method depends primarily on the timing of infrastructure construction (past, concurrent, or future) and service characteristics of the facility type being addressed. Each method has advantages and disadvantages in a particular situation and can be used simultaneously for different cost components.

The process of calculating development impact fees involves two main steps: (1) determining the cost of development-related capital improvements and (2) allocating those costs equitably to various types of development. In practice, though, the calculation of development fees can become complicated due to many variables involved in defining the relationship between development and the need for facilities within the designated service area. The following paragraphs discuss three basic methods for calculating development fees and how those methods can be applied.

- *Recoupment.* The rationale for recoupment, often called cost recovery, is that new development is paying for its share of the useful life and remaining capacity of facilities already built, or land already purchased, from which new growth will benefit. This methodology is often used for utility systems that must provide adequate capacity before new development can take place.
- *Incremental Expansion.* The incremental expansion method documents current infrastructure standards for each type of public facility, using both quantitative and qualitative measures. By definition there are no existing infrastructure deficiencies or surplus capacity in infrastructure. New development is only paying its proportionate share to maintain current standards for growth-related infrastructure. Fee revenue will be used to expand or provide additional facilities, as needed to keep pace with new development.
- *Plan-Based.* The plan-based method allocates costs for a specified set of improvements to a specified amount of service units. Improvements are typically identified in a facility master plan and development potential is identified by the land use assumptions. There are two options for determining the cost per service unit: 1) total cost of a public facility can be divided by total demand

units (average cost approach), or 2) the growth-share of the public facility cost can be divided by the net increase in demand units over the planning timeframe (marginal cost approach).

Figure 1 summarizes the methods and cost components for each type of infrastructure included in Prescott's IIP and DIF study. Arizona's enabling legislation also requires a determination of service areas, within which a substantial nexus exists between public facilities and the development being served. A citywide service area is appropriate for Prescott's streets, fire, and police facilities.

Figure 1: Development Fee Methods and Cost Components

Type of Impact Fee	Service Area	Incremental Expansion (current standards)	Plan Based	Cost Allocation
Streets Facilities	Citywide		Arterial Lane Miles and Intersection Improvements	Vehicle Miles of Travel
Police Facilities	Citywide	Police Buildings and Vehicles		Calls for Service, Persons per Housing Unit, and Inbound Vehicle Trips to Nonresidential Development
Fire Facilities	Citywide	Fire Stations and Apparatus		Calls for Service, Persons per Housing Unit, and Inbound Vehicle Trips to Nonresidential Development

Proposed Development Fees

Proposed fees per residential dwelling are summarized in Figure 2. Residential fees per dwelling unit are shown by three size thresholds, based on climate-controlled space, excluding garages and outdoor patios/porches.

Fees for nonresidential development are listed per square foot of floor area. Proposed fees are provided for three general types of development. Industrial includes all goods production and warehouse development. Office and Other Services includes business service and personal services, such as health care. Retail and Restaurants includes the uses found in a typical shopping center, such as eating/drinking places.

Figure 2: Proposed Development Impact Fees

	Streets	Police	Fire	Total
Residential (per dwelling by livable square feet)				
1800 sf or Less	$3,184	$680	$1,062	$4,926
1801 - 2600 sf	$3,568	$761	$1,189	$5,518
2601 sf or more	$3,754	$802	$1,253	$5,809
Nonresidential (per Square Foot)				
Industrial	$1.81	$0.35	$0.54	$2.70
Office & Other Services	$4.04	$0.78	$1.21	$6.03
Retail & Restaurants	$6.69	$1.89	$2.94	$11.52

Streets Facilities

ARS § 9-463.05(T)(7)(e) defines the facilities and assets which can be included in the Streets Facilities IIP.

> *"Street facilities located in the service area, including arterial or collector streets or roads that have been designated on an officially adopted plan of the municipality, traffic signals and rights-of-way and improvements thereon."*

Development Fees for Streets

Figure 3 indicates key input variables at the top, which are documented in Prescott's LUA and IIP report. Proposed fees are equal to the Vehicle Miles of Travel (VMT) by development category multiplied by the cost factor of $152.47 per VMT. For example, the DIF for an average size residential unit is derived from the formula below.

5.99 x 0.55 x 1.19 x 5.97 x $152.47 = $3,568 (truncated)

Figure 3: Proposed Streets Fees

Average Miles per Trip	5.97
Ten-Year IIP Growth Share	$17,733,000
Professional Services Cost	$19,327
Total Cost	$17,752,327
Vehicle Miles of Travel Increase Over Ten Years	116,426
Capital Cost per Additional VMT	$152.47

Development Type	*Avg Wkdy Veh Trip Ends*	*Trip Rate Adjustment*	*Trip Length Adjustment*	*Average Miles per Trip*	*Streets Fees*
Nonresidential (per Square Foot)					
Industrial	0.00487	50%	82%	5.97	$1.81
Office & Other Services	0.01084	50%	82%	5.97	$4.04
Retail & Restaurants	0.03701	36%	56%	5.97	$6.69
Residential					
1800 sf or Less	5.35	55%	119%	5.97	$3,184
1801 - 2600 sf	5.99	55%	119%	5.97	$3,568
2601 sf or more	6.31	55%	119%	5.97	$3,754

Projected Revenue from Streets Fees

The revenue projection shown below assumes implementation of the proposed streets fees and that development in the service area over the next 10 years is consistent with the land use assumptions. To the extent the rate of development either accelerates or slows down, there will be a corresponding change in the impact fee revenue. The streets fee revenue projection in Figure 4 ($17.73 million over 10 years) approximates the growth cost of planned system improvements to be funded with development fees.

Figure 4: Proposed Streets Fee Revenue

Ten-Year Growth Cost of Streets Facilities $17,733,000

Ten-Year Projection of Development Fee Revenue for Streets

		Residential $3,568 per housing unit	*Nonresidential {1}* $4,019 per 1000 Sq Ft
	Year	*Housing Units*	*1000 Sq Ft*
Base	2024	23,723	8,090
Year 1	2025	24,079	8,190
Year 2	2026	24,440	8,290
Year 3	2027	24,807	8,400
Year 4	2028	25,179	8,500
Year 5	2029	25,556	8,600
Year 6	2030	25,940	8,690
Year 7	2031	26,329	8,800
Year 8	2032	26,724	8,900
Year 9	2033	27,125	9,000
Year 10	2034	27,531	9,100
	Ten-Yr Increase =>	3,809	1,010
	Fee Revenue =>	$13,588,000	$4,060,000
		Projected Revenue from Streets DIF =>	$17,648,000

[1] Based on a weighted average of square feet by land use

Public Safety Facilities

ARS § 9-463.05(T)(7)(f) defines the police and fire facilities eligible for development fee funding. The City of Prescott will refer to these as "public safety facilities."

> *"Fire and Police facilities, including all appurtenances, equipment and vehicles. Fire and Police facilities do not include a facility or portion of a facility that is used to replace services that were once provided elsewhere in the municipality, vehicles and equipment used to provide administrative services, helicopters or airplanes or a facility that is used for training firefighters or officers from more than one station or substation."*

Police Development Fees

Input variables for police, as documented in the IIP, are summarized in the upper portion of Figure 5. The conversion of infrastructure costs per service unit into a cost per development unit is also shown in the table below. For residential development, average number of persons per dwelling provides the necessary

conversion. For nonresidential development, trip generation rates by type of development are from the Institute of Transportation Engineers (ITE 2021). To ensure the analysis is based on travel demand associated with nonresidential development within Prescott, trip ends (entering and exiting) are converted to inbound trips using trip adjustment factors. For industrial and office/other services, a basic adjustment of 50% is applied. Because commercial development attracts "pass-by" trips, the adjustment factor for commercial is only 36%, based on the average pass-by factor for shopping centers (ITE 2021). Proposed development fees for police facilities are shown in the column with blue shading.

Figure 5: Proposed Police Fees

Ten-Year IIP Growth Cost	$3,684,000		
Professional Services Cost	$19,327		
Total Cost	$3,703,327		
Cost Allocation			
Residential	70%		
Nonresidential	30%		
Allocated Cost by Land Use			
Residential	$2,592,329		
Nonresidential	$1,110,998		
Vehicle Trip Growth (2024-2034)		Cost per Service Unit	
Residential (persons)	7,617	$340	
Nonresidential (jobs)	7,713	$144	
Nonresidential (per square foot)			
Type	*AWVTE* per Square Foot*	*Trip Adjustment Factors*	*Police Fee*
Industrial	0.00487	50.0%	$0.35
Office & Other Services	0.01084	50.0%	$0.78
Retail & Restaurants	0.03701	35.5%	$1.89
Residential (per housing unit)	Persons per Hsg Unit		
1800 sf or less	2.00		$680
1801-2600 sf	2.24		$761
Over 2600 sf	2.36		$802

Projected Revenue from Police Fees

The revenue projection shown below assumes implementation of the proposed police fees and that development in the service area over the next 10 years is consistent with the land use assumptions. To the extent the rate of development either accelerates or slows down, there will be a corresponding change in the impact fee revenue. The police fee revenue projection in Figure 6 ($3.68 million over 10 years) approximates the growth cost of planned system improvements to be funded with development fees.

Figure 6: Police Fee Revenue[1]

Ten-Year Growth Cost of Police Facilities $3,684,000

Ten-Year Projection of Development Fee Revenue for Police

		Residential $761 per housing unit	*Nonresidential [1]* $920 per 1000 Sq Ft
	Year	*Housing Units*	*1000 Sq Ft*
Base	2024	23,723	8,090
Year 1	2025	24,079	8,190
Year 2	2026	24,440	8,290
Year 3	2027	24,807	8,400
Year 4	2028	25,179	8,500
Year 5	2029	25,556	8,600
Year 6	2030	25,940	8,690
Year 7	2031	26,329	8,800
Year 8	2032	26,724	8,900
Year 9	2033	27,125	9,000
Year 10	2034	27,531	9,100
	Ten-Yr Increase =>	3,809	1,010
	Fee Revenue =>	$2,898,000	$930,000
		Projected Revenue from Police DIF =>	$3,828,000

[1] Based on a weighted average of square feet by land use

[1] Actual revenue will vary depending on the square footage and type of residential and non-residential growth.

Fire Development Fees

Input variables for fire facilities, documented in the IIP, are summarized in the upper portion of Figure 7. The conversion of costs per service unit into a cost per development unit is also shown in the table below. For residential development, average number of persons per housing unit provides the necessary conversion. For nonresidential development, average jobs per square foot of floor area are derived from trip generation rates by type of development, published by the Institute of Transportation Engineers (ITE 2021). Additional details on nonresidential prototypes are provided in the LUA report. Proposed development fees for fire facilities are shown in the column with light orange shading.

Figure 7: Fire Service Units and Fees per Development Unit

Ten-Year IIP Growth Cost	$5,762,247	
Professional Services Cost	$19,327	
Total	$5,781,574	
Cost Allocation		
Residential	70%	
Nonresidential	30%	
Allocated Cost by Land Use		
Residential	$4,047,102	
Nonresidential	$1,734,472	
Growth 2024 to 2034		Cost per Service Unit
Residential (persons)	7,617	$531
Nonresidential (vehicle trips)	7,713	$224

Nonresidential (per square foot)

Type	*AWVTE* per SF*	*Trip Adjustment Factors*	*Fire Fee*
Industrial	0.00487	50.0%	$0.54
Office & Other Services	0.01084	50.0%	$1.21
Retail & Restaurants	0.03701	35.5%	$2.94
Residential (per housing unit)	*Persons per Hsg Unit*		
1,800 sf or less	2.00		$1,062
1,801-2,600 sf	2.24		$1,189
Over 2,600 sf	2.36		$1,253

Projected Revenue for Fire Facilities

Fire development fee revenue is expected to match the growth cost of fire infrastructure, which has a 10-year total cost of approximately $5.76 million (see the upper portion of Figure 8). To the extent the rate of development either accelerates or slows down, there will be a corresponding change in the need for infrastructure and development fee revenue.

Figure 8: Fire Development Fee Revenue[2]

Ten-Year Growth Cost of Fire Facilities $5,762,247

Ten-Year Projection of Development Fee Revenue for Fire Facilities

		Residential $1,189 per housing unit	*Nonresidential [1]* $1,429 per 1000 Sq Ft
	Year	*Housing Units*	*1000 Sq Ft*
Base	2024	23,723	8,090
Year 1	2025	24,079	8,190
Year 2	2026	24,440	8,290
Year 3	2027	24,807	8,400
Year 4	2028	25,179	8,500
Year 5	2029	25,556	8,600
Year 6	2030	25,940	8,690
Year 7	2031	26,329	8,800
Year 8	2032	26,724	8,900
Year 9	2033	27,125	9,000
Year 10	2034	27,531	9,100
	Ten-Yr Increase =>	3,809	1,010
	Fee Revenue =>	$4,528,000	$1,443,000
		Projected Revenue from Fire DIF =>	$5,971,000

[1] Based on a weighted average of square feet by land use

[2] Actual revenue will vary depending on the square footage and type of residential and non-residential growth.

Persons per Housing Unit by Size Threshold

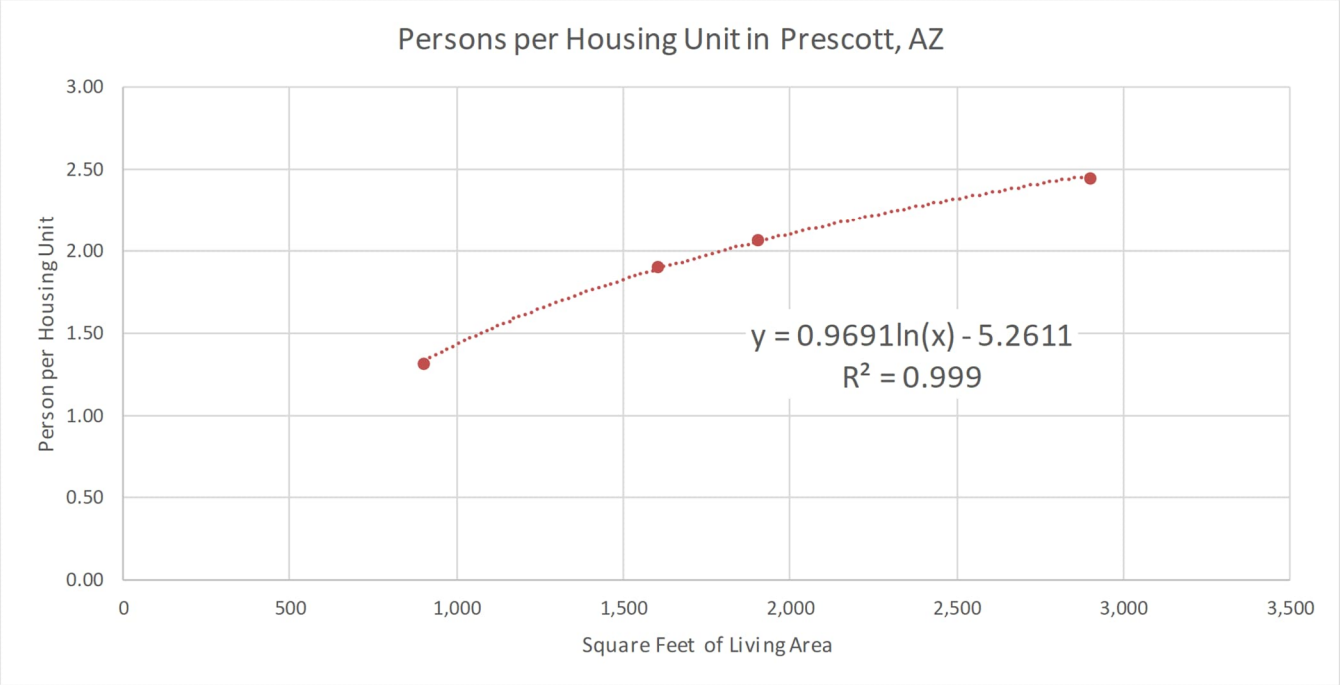
In the previous study, Raftelis updated the methodology used to calculate DIFs to use square feet of living space rather than number of bedrooms. This methodology is easier to administer for all types of housing, as criteria determining what qualifies as a bedroom is not required. Raftelis has maintained the same methodology, utilizing U.S. Census Bureau Survey of Construction microdata and American Community Survey microdata to obtain average square feet for one, two, three, and four or more bedrooms. This data is then scaled to match current residential development in Prescott, as determined using building permit records provided by City staff.

The LUA assumes the average detached house in Prescott contains approximately 2,300 square feet of living space. Average floor area and number of persons by bedroom range are plotted below, with a logarithmic trend line fitted to the Prescott data. Using the trend line formula shown in the chart, Raftelis derived the estimated average number of persons, by dwelling size, using three size thresholds.

Figure 9: Persons per Housing Unit by Bedrooms and Building Square Feet

Survey of Construction	***Averages per Housing Unit***			***Fitted-Curve Values***	
Square Feet	*Bedrooms*	*Sq Ft (rounded)*	*Persons*	*Sq Ft Range*	*Persons*
1,081	0-1	900	1.32		
1,809	2	1,600	1.90	1800 or less	2.00
2,204	3	1,900	2.07	1801 to 2600	2.24
3,382	4+	2,900	2.45	2601 or more	2.36
2,675	<=Wt Avg=>	2,300			

Source: Average square feet by bedroom range is from U.S. Census Bureau 2014 Survey of Construction microdata. Average persons per housing unit by bedroom range is based on 2022 ACS PUMS for AZ PUMA 500.



The fitted-curve values for persons per housing unit (shown above) were reduced by the ratio of 2.0 divided 2.24 to make the values used in the fee calculations align with the overall average for Prescott (i.e., 2.0 persons per housing unit as documented in Figure 6 of the Land Use Assumptions report dated 2/26/24).

Trips Ends by Size Threshold

To derive Average Weekday Vehicle Trip Ends (AWVTE) by dwelling size, Raftelis matched trip generation rates and average floor area, by bedroom range, as shown below in Figure 10. The logarithmic trend line formula, derived from the four averages in Prescott, was used to derive estimated trip ends by dwelling size across three size thresholds.

The fitted-curve values for trip ends per housing unit (shown below) were reduced by the ratio of 5.69 divided 6.32 to make the values used in the fee calculations align with the overall average for Prescott (i.e., 5.69 AWVTE per housing unit as documented in Figure 6 of the Land Use Assumptions report dated 2/26/24).

Figure 10: Trip Ends by Bedroom Size and Building Square Feet

Source: Average square feet by bedroom range is from U.S. Census Bureau 2014 Survey of Construction microdata. Average vehicle trip ends per housing unit by bedroom range is based on 2022 ACS PUMS for AZ PUMA 500.

Averages per Housing Unit			*Fitted-Curve Values*	
Bedrooms	*Square Feet*	*Trip Ends*	*Sq Ft Range*	*Trip Ends*
0-1	900	3.71		
2	1,600	5.22	1800 or less	5.64
3	1,900	6.00	1801 to 2600	6.32
4+	2,900	6.87	2601 or more	6.65