

**Executive Summary**  
**Development Fee Study**

Prepared for:

**City of Surprise, Arizona**

December 4, 2006



Prepared by:

**TischlerBise**  
Fiscal, Economic & Planning Consultants

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## Executive Summary

The City of Surprise has contracted with TischlerBise to update its development fees for the following infrastructure categories:

- Water Resources (update of existing fee);
- Drinking Water System (update of existing fee);
- Dual Water System (calculation of new fee category);
- Wastewater Treatment (update of existing fee);
- Libraries (update of existing fee);
- Parks & Recreation (update of existing fee);
- Police (update of existing fee);
- Fire/EMS (update of existing fee);
- Public Works (update of existing fee);
- General Government (update of existing fee);
- Roads of Regional Significance (calculation of new fee category).

## **DEVELOPMENT FEE REQUIREMENTS**

Development fees are one-time payments for public facilities based on the proportionate share of costs incurred for facilities needed to accommodate new development. Development fees relate only to capital facility expansions benefiting new development and are not to be utilized for rehabilitation efforts or operating expenses. Development fees must meet the requirements of the Arizona's Development Fees Act (Arizona Revised Statutes § 9-463.05) and restrictions that evolved from development fee case law, namely what is commonly referred to as the "rational nexus" test. The rational nexus test consists of three requirements: 1) needed capital facilities are a consequence of new development (i.e. demand); 2) fees are a proportionate share of the government's cost (proportionality); and 3) revenues are managed and expended in such a way that new development receives a substantial benefit (benefit).

The development fee methodologies established in this report show that the capital facilities for which the fee are prepared are a consequence of new development, the fees are proportionate and reasonably related to the capital facility service demands of new development and that development fees will substantially benefit new development.

Another general requirement that is common to development fee methodologies is the evaluation of *credits*. There are several types of credits that have been considered in the development fee methodology. First, a **future revenue credit** has been considered to avoid potential double payment for capital facilities.

The second type of credit is a **site-specific credit** for system improvements that have been included in the development fee calculations. Project improvements normally required as part of the development approval process are not eligible for credits against development fees. Specific policies and procedures related to site-specific credits for system improvements are addressed in the ordinance that establishes the City's fees. However, the general concept is that developers may be eligible for site-specific credits or reimbursements only if they provide system improvements that have been included in the development fee calculation schedule.

## **METHODOLOGIES**

As part of this study, TischlerBise evaluated possible methodologies and documented appropriate demand indicators by type of development, for each type of development fee. Specific capital costs have been identified using local data and current dollars. The formula used to calculate each development fee is diagrammed in a flow chart at the beginning of each section. Also, each fee category includes a summary table indicating the specific factors used to derive the development fee. These factors are also referred to as level of service (LOS) standards.

There are three basic methods used to calculate the various components of Surprise's development fees. A **plan-based method** is best suited for public facilities that have adopted plans or commonly accepted service delivery standards to guide capital improvements. Under the plan-based methodology, there are two approaches considered. The **average approach** is used for projects that are the result of *both new and existing development*. The planned costs are allocated to both new and existing development which ensures that new growth only pays its share of the costs. The **marginal approach** is used for projects that are the result of *only new growth*. The planned costs are allocated to the net increase in new growth.

The **incremental expansion method** documents the current level-of-service (LOS) for each type of public facility. LOS standards are determined using the City's current inventory of capital facilities and assets as well as current costs to construct or purchase comparable facilities or assets. However, Surprise will not use the funds for renewal and/or replacement of existing facilities. Rather the City's intent is to use development fee revenue to expand or provide additional facilities, as needed to accommodate new development. An incremental expansion cost method is best suited for public facilities that will be expanded in regular increments, with LOS standards based on current conditions in the community.

A third method, known as the **buy-in method** is best suited for facilities that have been oversized in anticipation of growth and have excess capacity available. New development would "buy-in" to the excess capacity of the facility. The rationale for the buy-in approach is that new development will pay for its share of the useful life and remaining capacity of recently constructed facilities.

Figure 1 provides a schedule of the development fees for Surprise. Development fees for residential development will be assessed per housing unit and nonresidential development fees will be assessed per thousand square feet of floor area. The City may adopt fees that are less than the amounts shown. However, a reduction in development fee revenue will necessitate an increase in other revenues, a decrease in planned capital expenditures and/or a decrease in the City's LOS standards.

To better meet the demand, proportionality, and benefit requirements of the rational nexus test, TischlerBise recommends the City collect and expend several of the development fees as follows:

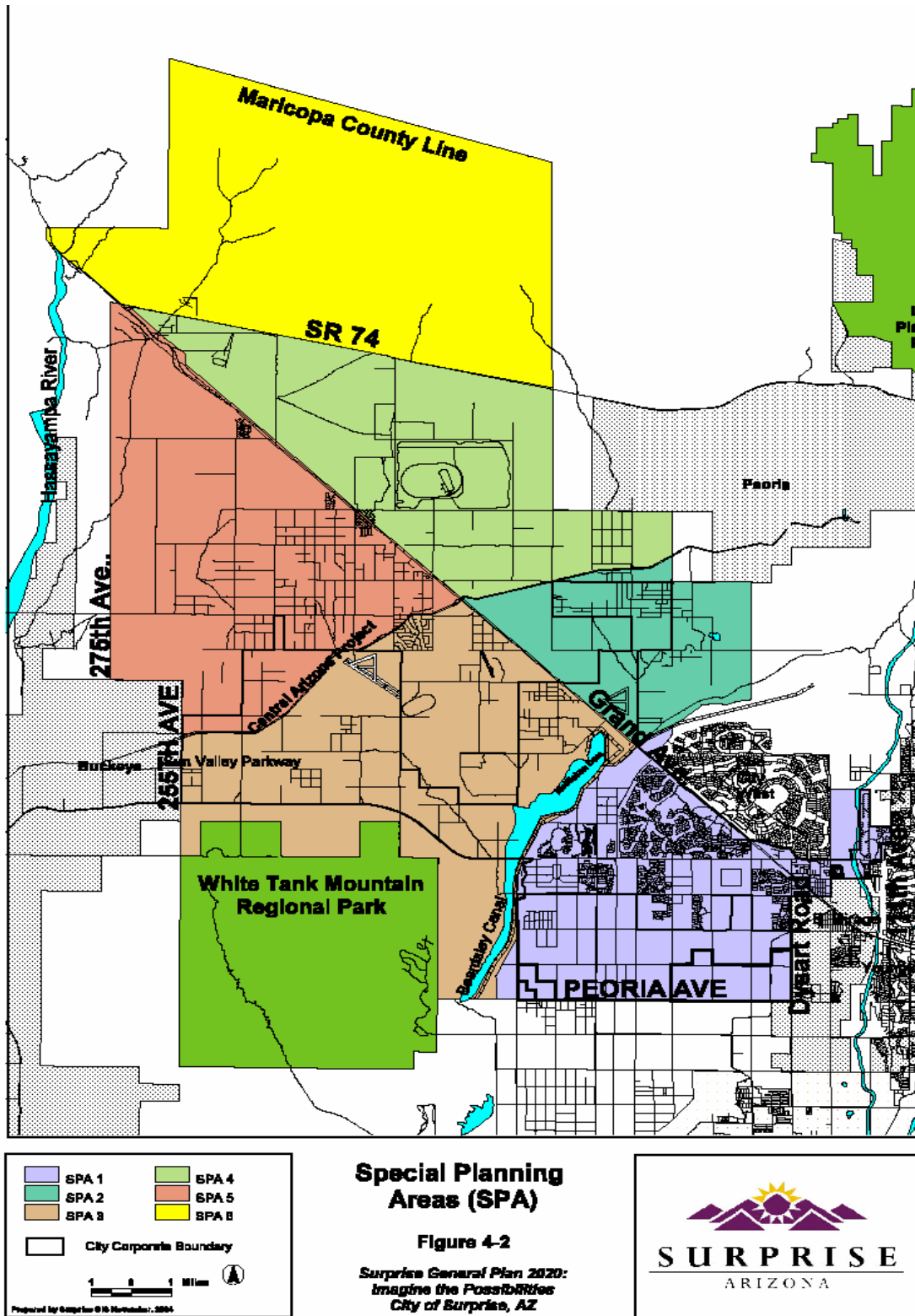
SPA 1

SPA 2, 4, 6

SPA 3, 5

These zones are used to document where in the City the development fee revenues are coming from and where capital projects for new growth will be provided. The collection and expenditures zone map in Figure 1 is provided to give the reader a general indication of the SPA boundaries. Larger, detailed maps will be maintained by the City.

Figure 1: Development Fee Areas



SURPRISE, ARIZONA EXECUTIVE SUMMARY DEVELOPMENT FEE STUDY

Figures 2, 3, and 4 provide a summary of development fees for each of the collection and expenditures areas.

**Figure 2: Schedule of Development Fees SPA 1**

**SPA 1**

Meter Size (inches)	Type	Capacity Ratio	Water	Drinking	or	Dual	Wastewater	TOTAL	
			Resources	Water System		Water System		(w/Drink Water)	(w/Dual Water)
0.75	Displacement	1.0	\$2,100	\$3,895		\$3,923	\$3,853	\$9,848	\$9,876
1.00	Displacement	1.3	\$2,673	\$4,958		\$4,993	\$4,896	\$12,527	\$12,562
1.50	Displacement	3.3	\$6,933	\$12,858		\$12,950	\$12,657	\$32,448	\$32,539
2.00	Displacement	5.3	\$11,085	\$20,559		\$20,705	\$20,221	\$51,864	\$52,010
3.00	Compound	10.7	\$22,403	\$41,551		\$41,846	\$40,840	\$104,794	\$105,089
3.00	Turbine	12.0	\$25,125	\$46,601		\$46,932	\$45,800	\$117,526	\$117,857
4.00	Compound	17.0	\$35,685	\$66,186		\$66,656	\$65,037	\$166,908	\$167,378
4.00	Turbine	20.5	\$43,045	\$79,838		\$80,405	\$78,447	\$201,330	\$201,898
6.00	Compound	33.0	\$69,328	\$128,584		\$129,498	\$126,329	\$324,241	\$325,154
6.00	Turbine	41.2	\$86,538	\$160,505		\$161,646	\$157,683	\$404,726	\$405,866
8.00	Compound	53.3	\$112,013	\$207,755		\$209,231	\$204,094	\$523,862	\$525,338
8.00	Turbine	60.2	\$126,360	\$234,364		\$236,030	\$230,231	\$590,956	\$592,621

	Parks & Recreation	Library	Police	Fire	General Government	Public Works	Roads of Reg. Significance	TOTAL
<u>Residential (per unit)</u>								
Single Family Detached	\$2,114	\$467	\$372	\$706	\$661	\$998	\$0	\$5,317
Single Family Attached; Multi-family, 1-9 Units In Structure	\$1,970	\$435	\$347	\$658	\$616	\$452	\$0	\$4,477
Multi-family, 10 Or More Units in Structure	\$1,563	\$345	\$275	\$522	\$489	\$342	\$0	\$3,536
All Other Housing Types	\$1,867	\$412	\$329	\$624	\$584	\$414	\$0	\$4,231
<u>Nonresidential (per 1,000 square feet/hotel room)</u>								
Com / Shop Ctr 25,000 SF or less	N/A	N/A	\$691	\$923	\$740	\$1,165	\$0	\$3,519
Com / Shop Ctr 25,001-50,000 SF	N/A	N/A	\$600	\$792	\$636	\$1,008	\$0	\$3,036
Com / Shop Ctr 50,001-100,000 SF	N/A	N/A	\$501	\$693	\$556	\$859	\$0	\$2,609
Com / Shop Ctr 100,001-200,000 SF	N/A	N/A	\$429	\$615	\$493	\$747	\$0	\$2,284
Com / Shop Ctr over 200,000 SF	N/A	N/A	\$365	\$554	\$445	\$652	\$0	\$2,016
Office / Inst 10,000 SF or less	N/A	N/A	\$253	\$1,241	\$996	\$924	\$0	\$3,414
Office / Inst 10,001-25,000 SF	N/A	N/A	\$205	\$1,150	\$923	\$829	\$0	\$3,107
Office / Inst 25,001-50,000 SF	N/A	N/A	\$175	\$1,083	\$869	\$763	\$0	\$2,890
Office / Inst 50,001-100,000 SF	N/A	N/A	\$149	\$1,022	\$821	\$704	\$0	\$2,696
Office / Inst over 100,000 SF	N/A	N/A	\$127	\$928	\$745	\$632	\$0	\$2,432
Business Park	N/A	N/A	\$142	\$876	\$703	\$618	\$0	\$2,339
Light Industrial	N/A	N/A	\$78	\$640	\$513	\$426	\$0	\$1,657
Warehousing	N/A	N/A	\$55	\$354	\$284	\$248	\$0	\$941
Manufacturing	N/A	N/A	\$42	\$496	\$398	\$314	\$0	\$1,250
Hotel (per room)	N/A	N/A	\$63	\$121	\$97	\$127	\$0	\$408

SURPRISE, ARIZONA EXECUTIVE SUMMARY DEVELOPMENT FEE STUDY

**Figure 3: Schedule of Development Fees SPA'S 2, 4, 6**

SPA'S 2, 4, 6

Meter Size (inches)	Type	Capacity Ratio	Drinking Water		or	Dual Water System		TOTAL		
			Water Resources	Water System		Water System	Wastewater	(w/Drink Water)	(w/Dual Water)	
0.75	Displacement	1.0	\$796	\$3,895		\$3,923	\$3,039	\$7,730	\$7,758	
1.00	Displacement	1.3	\$1,013	\$4,958		\$4,993	\$3,860	\$9,831	\$9,867	
1.50	Displacement	3.3	\$2,628	\$12,858		\$12,950	\$9,970	\$25,457	\$25,548	
2.00	Displacement	5.3	\$4,202	\$20,559		\$20,705	\$15,925	\$40,686	\$40,832	
3.00	Compound	10.7	\$8,493	\$41,551		\$41,846	\$32,159	\$82,202	\$82,497	
3.00	Turbine	12.0	\$9,525	\$46,601		\$46,932	\$36,063	\$92,189	\$92,520	
4.00	Compound	17.0	\$13,528	\$66,186		\$66,656	\$51,209	\$130,923	\$131,393	
4.00	Turbine	20.5	\$16,318	\$79,838		\$80,405	\$61,766	\$157,922	\$158,490	
6.00	Compound	33.0	\$26,282	\$128,584		\$129,498	\$99,463	\$254,329	\$255,243	
6.00	Turbine	41.2	\$32,806	\$160,505		\$161,646	\$124,148	\$317,459	\$318,600	
8.00	Compound	53.3	\$42,464	\$207,755		\$209,231	\$160,687	\$410,906	\$412,382	
8.00	Turbine	60.2	\$47,903	\$234,364		\$236,030	\$181,265	\$463,532	\$465,197	
			<b>Parks &amp; Recreation</b>			<b>General Government</b>		<b>Public Works</b>	<b>Roads of Reg. Significance</b>	<b>TOTAL</b>
<u>Residential (per unit)</u>			<b>Recreation</b>	<b>Library</b>	<b>Police</b>	<b>Fire</b>	<b>Government</b>			
Single Family Detached			\$2,114	\$467	\$372	\$706	\$661	\$998	\$5,715	\$11,032
Single Family Attached; Multi-family, 1-9 Units In Structure			\$1,970	\$435	\$347	\$658	\$616	\$452	\$4,013	\$8,490
Multi-family, 10 Or More Units in Structure			\$1,563	\$345	\$275	\$522	\$489	\$342	\$4,013	\$7,549
All Other Housing Types			\$1,867	\$412	\$329	\$624	\$584	\$414	\$2,980	\$7,211
<u>Nonresidential (per 1,000 square feet/hotel room)</u>										
Com / Shop Ctr 25,000 SF or less			N/A	N/A	\$691	\$923	\$740	\$1,165	\$16,322	\$19,842
Com / Shop Ctr 25,001-50,000 SF			N/A	N/A	\$600	\$792	\$636	\$1,008	\$14,179	\$17,215
Com / Shop Ctr 50,001-100,000 SF			N/A	N/A	\$501	\$693	\$556	\$859	\$11,842	\$14,450
Com / Shop Ctr 100,001-200,000 SF			N/A	N/A	\$429	\$615	\$493	\$747	\$10,135	\$12,419
Com / Shop Ctr over 200,000 SF			N/A	N/A	\$365	\$554	\$445	\$652	\$8,614	\$10,630
Office / Inst 10,000 SF or less			N/A	N/A	\$253	\$1,241	\$996	\$924	\$6,603	\$10,017
Office / Inst 10,001-25,000 SF			N/A	N/A	\$205	\$1,150	\$923	\$829	\$5,347	\$8,454
Office / Inst 25,001-50,000 SF			N/A	N/A	\$175	\$1,083	\$869	\$763	\$4,560	\$7,450
Office / Inst 50,001-100,000 SF			N/A	N/A	\$149	\$1,022	\$821	\$704	\$3,887	\$6,583
Office / Inst over 100,000 SF			N/A	N/A	\$127	\$928	\$745	\$632	\$3,313	\$5,745
Business Park			N/A	N/A	\$142	\$876	\$703	\$618	\$3,718	\$6,057
Light Industrial			N/A	N/A	\$78	\$640	\$513	\$426	\$2,031	\$3,688
Warehousing			N/A	N/A	\$55	\$354	\$284	\$248	\$1,445	\$2,386
Manufacturing			N/A	N/A	\$42	\$496	\$398	\$314	\$1,113	\$2,363
Hotel (per room)			N/A	N/A	\$63	\$121	\$97	\$127	\$1,641	\$2,049

**Figure 4: Schedule of Development Fees SPA'S 3, 5**

**SPA'S 3, 5**

Meter Size (inches)	Type	Capacity Ratio	Drinking Water		or	Dual Water System		TOTAL		
			Resources	System		Water System	Wastewater	(w/Drink Water)	(w/Dual Water)	
0.75	Displacement	1.0	\$796	\$3,895		\$3,923	\$3,039	\$7,730	\$7,758	
1.00	Displacement	1.3	\$1,013	\$4,958		\$4,993	\$3,860	\$9,831	\$9,866	
1.50	Displacement	3.3	\$2,628	\$12,858		\$12,950	\$9,970	\$25,456	\$25,548	
2.00	Displacement	5.3	\$4,202	\$20,559		\$20,705	\$15,925	\$40,686	\$40,832	
3.00	Compound	10.7	\$8,492	\$41,551		\$41,846	\$32,159	\$82,201	\$82,497	
3.00	Turbine	12.0	\$9,524	\$46,601		\$46,932	\$36,063	\$92,188	\$92,519	
4.00	Compound	17.0	\$13,527	\$66,186		\$66,656	\$51,209	\$130,922	\$131,392	
4.00	Turbine	20.5	\$16,318	\$79,838		\$80,405	\$61,766	\$157,922	\$158,489	
6.00	Compound	33.0	\$26,281	\$128,584		\$129,498	\$99,463	\$254,328	\$255,242	
6.00	Turbine	41.2	\$32,806	\$160,505		\$161,646	\$124,148	\$317,459	\$318,599	
8.00	Compound	53.3	\$42,463	\$207,755		\$209,231	\$160,687	\$410,905	\$412,381	
8.00	Turbine	60.2	\$47,902	\$234,364		\$236,030	\$181,265	\$463,531	\$465,196	
			<b>Parks &amp; Recreation</b>			<b>General Government</b>		<b>Public Works</b>	<b>Roads of Reg. Significance</b>	<b>TOTAL</b>
<u>Residential (per unit)</u>			<b>Recreation</b>	<b>Library</b>	<b>Police</b>	<b>Fire</b>	<b>Government</b>	<b>Works</b>	<b>Significance</b>	<b>TOTAL</b>
Single Family Detached			\$2,114	\$467	\$372	\$706	\$661	\$998	\$5,396	\$10,713
Single Family Attached; Multi-family, 1-9 Units In Structure			\$1,970	\$435	\$347	\$658	\$616	\$452	\$3,789	\$8,266
Multi-family, 10 Or More Units in Structure			\$1,563	\$345	\$275	\$522	\$489	\$342	\$3,789	\$7,325
All Other Housing Types			\$1,867	\$412	\$329	\$624	\$584	\$414	\$2,814	\$7,044
<u>Nonresidential (per 1,000 square feet/hotel room)</u>										
Com / Shop Ctr 25,000 SF or less			N/A	N/A	\$691	\$923	\$740	\$1,165	\$15,411	\$18,931
Com / Shop Ctr 25,001-50,000 SF			N/A	N/A	\$600	\$792	\$636	\$1,008	\$13,388	\$16,423
Com / Shop Ctr 50,001-100,000 SF			N/A	N/A	\$501	\$693	\$556	\$859	\$11,181	\$13,789
Com / Shop Ctr 100,001-200,000 SF			N/A	N/A	\$429	\$615	\$493	\$747	\$9,570	\$11,853
Com / Shop Ctr over 200,000 SF			N/A	N/A	\$365	\$554	\$445	\$652	\$8,133	\$10,150
Office / Inst 10,000 SF or less			N/A	N/A	\$253	\$1,241	\$996	\$924	\$6,234	\$9,649
Office / Inst 10,001-25,000 SF			N/A	N/A	\$205	\$1,150	\$923	\$829	\$5,049	\$8,155
Office / Inst 25,001-50,000 SF			N/A	N/A	\$175	\$1,083	\$869	\$763	\$4,306	\$7,195
Office / Inst 50,001-100,000 SF			N/A	N/A	\$149	\$1,022	\$821	\$704	\$3,670	\$6,366
Office / Inst over 100,000 SF			N/A	N/A	\$127	\$928	\$745	\$632	\$3,128	\$5,560
Business Park			N/A	N/A	\$142	\$876	\$703	\$618	\$3,511	\$5,850
Light Industrial			N/A	N/A	\$78	\$640	\$513	\$426	\$1,918	\$3,575
Warehousing			N/A	N/A	\$55	\$354	\$284	\$248	\$1,365	\$2,305
Manufacturing			N/A	N/A	\$42	\$496	\$398	\$314	\$1,051	\$2,301
Hotel (per room)			N/A	N/A	\$63	\$121	\$97	\$127	\$1,549	\$1,957

All costs in the development fee calculations are given in current dollars with no assumed inflation rate over time. If cost estimates change significantly, the fees should be recalculated.

A note on rounding: Calculations throughout this report are based on analysis conducted using Excel software. Results are discussed in the report using one-and two-digit places (in most cases), which represent rounded figures. However, the analysis itself uses figures carried to their ultimate decimal places; therefore the sums and products generated in the analysis may not equal the sum or product if the reader replicates the calculation with the factors shown in the report (due to the rounding of figures shown, not due to rounding in the analysis).