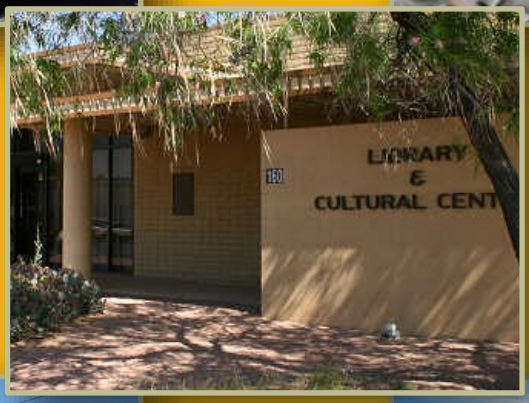
CHAPTER 8: COST OF DEVELOPMENT



Cost of Development Element

OVERVIEW

The 2035 General Plan presents strategies to manage Coolidge's land use and growth decisions in a fiscally sustainable manner. The 2035 General Plan includes strategies to maximize land uses, preserve the quality of place, and ensure development pays its fair share of improvements to provide necessary public services like transportation infrastructure, utilities, parks, recreational facilities, and public safety.

Numerous factors influence the fiscal results for different land uses. These factors include, but are not limited to:

- Local revenue structure,
- Services provided
- Local levels of service,
- Capacity of existing infrastructure
- Demographic and market characteristics of new growth

LOCAL REVENUE STRUCTURE

A key determinant in calculating net fiscal results from new development is the local revenue structure, which affects fiscal findings through both its composition and revenue distribution/collection formulas. Every community has at least one major revenue source, and in some cases, several on which it is reliant. Examples include property tax, local sales tax, and state shared revenues. An important component of revenue structure is the distribution/collection formulas for various sources. With the exception of property tax, the distribution/collection formulas for common revenue sources can vary greatly from state to state. For example, in states where sales tax is collected, some allow communities to assess a local option sales tax, which is usually collected on a situs-basis (point of sale). Other states collect sales tax at the state level and distribute the revenue to communities using a population-based formula.

SERVICES PROVIDED

Another important factor in the fiscal equation is the services provided by the jurisdiction. Jurisdictions provide different services and the fiscal impact analysis will reflect this—and stakeholders and the audience for the study will need to understand this. For example, in many states, school districts are separate entities with their own tax rates (e.g., Arizona). In other states, schools get their local funds from County General Fund taxes (e.g., Virginia). Fiscal analyses will obviously reflect the services provided and funding streams, and audiences need to be aware of this to prevent both unintentional and deliberate confusion.

LEVELS OF SERVICE

Another factor in fiscal impact analysis is an understanding of the levels of service currently being provided in a community. Existing levels of service are defined as the facility or service standard currently being funded through the budget. Examples of level of service standards are wastewater ratios (i.e., gallons per day per connection), parkland per capita, etc. This is an important factor since levels of service generally vary from community to community.

CAPACITY OF EXISTING INFRASTRUCTURE

The capacity of existing infrastructure in a community also has a bearing on the fiscal sustainability of new development. For example, a community may have the capacity to absorb a large number of additional vehicle trips on its existing road network or may be significantly under capacity with regards to high school enrollment. In either of these situations, using a case study-marginal cost approach that account for existing

facilities and levels of usage to assess fiscal impacts, a community with excess capacity could absorb substantially higher growth over time without making additional infrastructure investments than a community without these capacities. This excess capacity results in lower capital costs over time. This is an important factor in the fiscal equation, since the largest cost associated with capital facilities are the annual operating costs, which typically account for approximately 80% of a community's budget.

DEMOGRAPHIC & MARKET CHARACTERISTICS OF NEW GROWTH

Next to a community's revenue structure, no other factor has as great an impact on the net fiscal results as the demographic and market characteristics of different land uses. Examples of demographic and market variables for residential development include average household sizes, market value of housing units, trip generation rates, density per acre, and average household income. Important demographic and market characteristics for nonresidential development include square feet per employee, trip generation rates, market values per square foot, sales per square foot (retail), and floor area ratio.

GENERAL FUND REVENUES

The primary revenue source for the City General Fund is sales tax revenue generated from retail activity (under Local Taxes). The City is working to diversify the mix of residential and nonresidential development in an effort to diversify the tax base and revenues generated.

Table 8A shows the revenue sources for the City during fiscal year 2024. Local Taxes is the most significant revenue source ($15,673,275) for the City. It represents 40% of all General Fund revenue collected in 2024. Intergovernmental revenue disbursed to the City during fiscal year 2024 totals $15,423,323 and also represents about 40% of revenues generated. These monies are generated from three types of taxes: state sales, income and vehicle license. As is the case in many states, State Shared Revenues are unpredictable; and are largely disbursed based on municipal shares of state population. Property Taxes generated $2,299,002 in revenue, representing about 6% of the total General Fund and Charges for Services providing 7%, or $2,299,002 of the budget.

The balance of revenue to expenditures is a complex process, the details of which are best reviewed in either the City's annual budget or Comprehensive Annu-

Table 8A: General Fund Revenues FY2024

Revenue Type	Amount	Percent
Local Taxes	$15,673,275	40%
Property Taxes	$2,299,002	6%
Licenses & Permits	$1,248,822	3%
Intergovernmental	$15,423,323	40%
Charges for Services	$2,545,398	7%
Fines and Forfeits	$211,970	> 1%
Investment Income	$474,871	1%
Miscellaneous	$638,079	2%
TOTAL:	$38,514,740	100%

Cost of Development Element

al Financial Report (CAFR). The budget process for the City is generally a balanced process from year to year; however; some expenditures and investments in infrastructure can occur over several years. The framework established to distribute these revenues towards the various costs to serve development consists of several Funds. These Funds include the: General Fund; Capital Projects Fund; Enterprise Funds; Highway Users Revenue Fund, etc.

GROWTH RELATED INFRASTRUCTURE

The City has several funds/revenue sources in place to contribute to and address the cost of development. Below is a description of some of the sources of revenue the City has established to fund infrastructure.

Highway User Revenue Fund: The Highway User Revenue Fund (HURF) is funded through gasoline and fuel taxes distributed from the State of Arizona. The City uses these funds to address street maintenance such as overlay improvements, striping and signage and general maintenance. This revenue source is not used to fund growth-related transportation infrastructure.

Wastewater Fund: The Wastewater Fund is an enterprise fund, where user fees are set to recover the cost of providing wastewater services and facilities to its customer base. These revenues are used to cover operating and some capital items such as debt service. The City augments these revenues with wastewater impact fees, designed to recoup new growth's share of needed infrastructure.

Impact Fees: Impact fees are one-time payments used to construct system improvements needed to accommodate development. Impact fees must be proportionate and reasonably related to the capital facility service demands of new development. The City collects impact fees for transportation, police, fire, libraries, parks/recreation and wastewater.

Other Funding: Other funding for improvements will include pay-as-you-go funding out of current revenues for lower cost improvements. Grants will be used to bridge funding gaps and leverage additional funds. Bonds provide an inexpensive way to finance large-scale projects. However, the City does not have much bonding capacity at the present..

STRATEGIES TO REDUCE COSTS

The 2035 General Plan process identified a tolerance for more intensity of development in appropriate areas, and identified parts of City with the capacity to absorb such growth (e.g., Downtown Core and Urban Neighborhoods). The maximum allowable densities identified in the Land Use Element describe how the community could develop over the course of a build-out, which is not expected for many decades.

The Future Land Use Map designates 24,187 acres for nonresidential development (Business/Commerce and Industrial), and an additional 49,119 acres for mixed use development (Downtown Core and Neighborhood) that may host commercial, office and residential development.

Density: The General Plan presents strategies to introduce more fiscally neutral housing stock by encouraging housing unit built closer to existing services and amenities. A healthy mix of land uses can serve to balance revenue sources and demands on necessary public services like public safety and parkland.

The Land Use Element examines increases in allowable development densities as a part of a new Future Land Use Map for the City. Areas of City with the infrastructure capacity to absorb additional development

will support increased density, which is intended to create more fiscally balanced or profitable land use mixtures. Given the revenue structure and capital demands of land uses in the City the best means to maintain fiscal sustainability is to diversify and intensify the land uses. As shown in Table 8b below, the City collects property tax and sales tax from retail establishments, but of the nonresidential land uses retail has the highest operating and capital demands. Retail generates the highest number of vehicle trips, stressing the street infrastructure, and has higher rates of public safety calls compared to other nonresidential land uses. Low density residential, generates higher property tax revenues, but requires extension and maintenance of streets, water, and utilities out to greater distances than higher density clustered development. Sprawling development generates more vehicle trips per housing unit than a unit in a multi-unit structure, and on average single residential units in Coolidge have more persons per household than units in multi-unit structures, which generates more vehicle trips, and demands for public safety, and parkland capital investments.

Infill Development: The 2035 General Plan identifies a community desire to encourage infill development as a means to slow outward growth, to create vibrancy in the Downtown Core. Infill development takes advantage of already existing public infrastructure like streets, water, and utilities with the capacity to absorb the growth in a vacant or underutilized property. By encouraging investments to be made within developed areas the property values of the surrounding neighborhood may benefit. Increased property values is a net gain for the City; however because property tax is not a large revenue stream for Coolidge, the purpose of infill is more to encourage vibrancy and create demand for commercial services that generate sales tax revenue. Infill development that is compatible with the existing neighborhood character restores continuity to the built environment. Infill development is environmentally friendly in many ways; it does not require use of fresh greenfield land, it does not threaten existing trees, it requires fewer raw building materials than a ground-up build, and it absorbs growth in already built districts close to services and amenities.

Table 8B: Hierarchy of Land Uses and Fiscal Impacts

Land Use	Property Tax Revenue	Sales Tax Revenue	Demand for Services	Fiscal Benefit
Residential (per unit)				
Agriculture	Medium	-	High	Negative
Rural Ranchette	Medium	-	Medium	Negative
Urban Neighborhood	High	-	Medium	Negative
Nonresidential (per unit)				
Downtown Core	High	+	Medium	Positive
Office	Medium	-	Medium	Positive
Retail	High	+	High	Positive
Industrial/Manufacturing	Low	-	Low	Neutral