
6.0 Financial Implementation of the Planned Growth Strategy Preferred Alternative

6.1 Executive Summary

Since the middle 1990s, the City of Albuquerque and Bernalillo County have engaged in a series of studies to determine the most efficient way in which to grow from 2000 to 2025. “Efficient” in this context means least fiscal impact. This is consistent with prior City and County policies such as “no net expense” relating to legally defined new Planned Communities located in the Comprehensive Plan Reserve and Rural Areas.⁷⁶ This report sets forth a Preferred Alternative to shape development to 2025.

The present chapter considers the financial implications of the Preferred Alternative, focusing on how it may be financed consistent with adopted policy, relevant New Mexico exactions statutes, and public finance theory. A tier-based program is recommended. Tiers would be based on fully served, partially served, and unserved areas. Financial incentives would be created to encourage development in Fully Served Areas, recover proportionate share capital costs needed to facilitate development in Partially Served Areas, and require full cost financing of development in Unserved Areas. The chapter is composed of the following elements:

- Section 6.2 Review of the Preferred Alternative
- Section 6.3 Cost of Implementing the Preferred Alternative
- Section 6.4 Components of Costs
- Section 6.5 General Financing Approaches
- Section 6.6 Financing the Growth-Related Costs of the Preferred Alternative
- Section 6.7 Creating Incentives to Support the Preferred Alternative
- Section 6.8 Review of the Planned Growth Strategy Tier-Based Capital Facility Financing Program
- Section 6.9 Concluding Observation

This chapter is intended to be combined with others addressing the design and implementation of the Preferred Alternative. Differences among chapters may exist because of different assignments and perspectives, however.

6.2 Review of the Preferred Alternative

Over the past few years, the City of Albuquerque and County of Bernalillo have evaluated fiscal implications of three general development alternatives:

- Trend
- Downtown
- Balanced

These development scenarios would accommodate the same population but in different proportions between three subareas:

- 1960 City Boundary;
- Current Water Service Area boundary, year 1999; and
- Extended water service area, serving Mesa del Sol, Quail Ranch, and other areas on the fringe.

Various consultants including a team headed by Parsons Brinckerhoff projected subarea population, housing, and employment for each alternative. Table 45 summarizes costs estimated initially by Parson Brinckerhoff and revised and extended to 2025. Costs include water, wastewater, storm drainage, streets, and transit.

The Balanced Scenario is only slightly more costly for both the public and private sectors than the Downtown Scenario, which is the least costly. The Preferred Alternative advanced in this report takes the best features of each of the three analyzed scenarios and the results of public review combined with adopted policy. The

**Table 45 Growth Related Costs of Development Scenarios, 2025
(in millions)**

Scenario	Public Costs	Total Costs
Downtown	\$881.4	\$1,787.9
Balanced	\$906.6	\$1,798.8
<i>Difference</i>	+\$25.2	+\$10.9
Trend	\$1,028.5	\$2,149.3
<i>Difference</i>	+\$147.1	+\$361.4

Preferred Alternative itself is applied to 14 sub-areas, each defined as being fully served, partially served, or unserved by water, wastewater, hydrologic, and street systems.

6.3 Cost of Implementing the Preferred Alternative

Three tables review projections of public capital costs for water, wastewater, storm drainage, street, and transit facilities based on the Downtown Scenario, which is the least costly scenario. Table 46 presents rehabilitation and deficiency costs projected to 2025 while Table 47 compares annualized needs to past spending levels. Deficiency costs are those that exist as of 2000. This table assumes that current deficiencies are projected to be remedied within 15 years. It also shows that the City and County will fall about \$20.4 million short (-31%) of meeting its rehabilitation spending needs each year. This figure is lower when combining rehabilitation and deficiency needs and spending.

Table 48 projects growth-related annualized needs, past annual spending, and annual shortfalls in revenue. Expenditures include revenue from current Utility Expansion Charges for water and wastewater facilities. This table suggests that the City and County will fall about \$10.2 million short of meeting its growth-related spending needs each year even after considering Utility Expansion Charges and other known revenue sources.

The annual needs and spending figures are based on the recommendations contained in Chapter 9. The reader is referred to this chapter for the assumptions made in arriving at these figures.

The tables do not reflect private capital costs. Some infrastructure is built by developers and dedicated to the local government. Developers also pay Utility Expansion Charges which are used to pay for part of the cost of water and wastewater master plan facilities to serve new

**Table 46 Rehabilitation and Deficiency Costs, Downtown Scenario
(in millions)**

Facility	Public Rehabilitation Costs	Public Deficiency Costs	Total Rehabilitation & Deficiency Costs
Water	\$505.4	\$0.0	\$505.4
Wastewater	\$347.0	\$15.3	\$362.3
Storm Drainage	\$35.2	\$218.1	\$253.3
Streets	\$1,107.8	\$524.0	\$1,631.8
Total	\$1,905.2	\$757.3	\$2662.5

Source: Adapted from City of Albuquerque, Planned Growth Strategy Management Committee, correspondence to Growth Management Analysts, October 3, 2000 and updated March 12, 2001. Figures based on "Infrastructure Needs and Levels of Spending" in Section 1.3.5.

**Table 47 Revenue and Expenditure Projections, Downtown Scenario
(in millions)**

Purpose	Water	Sewer	Streets ¹	Hydrology	Total
Annual Public Rehabilitation					
Need	\$19.5	\$13.9	\$32.1	\$1.4	\$66.9
Spending	\$9.1	\$7.2	\$28.3	\$1.9	\$46.5
Difference	-\$11.1	-\$6.7	-\$3.8	\$0.5	-\$20.4
Percent	-55%	-48%	-12%	36%	-31%
Annual Public Deficiencies					
Need	\$0	\$0	\$10.4	\$7.7	\$18.1
Spending	\$0.5	\$0.5	\$15.4	\$8.2	\$24.6
Difference	\$0.5	\$0.5	\$5.0	\$0.5	\$6.5
Percent	na	na	48%	6%	36%

Source: Adapted from City of Albuquerque, Planned Growth Strategy Management Committee, correspondence to Growth Management Analysts, October 3, 2000 and updated March 12, 2001. Based on Chapter 9.0 City and County Financial and Planning Requirements.

1. Street costs reflect only the projected transportation improvement plan, not annual depreciation of the transportation system which is much higher. Street needs and spending only include City and County figures and exclude state figures. All deficiency needs assumed to be public sector responsibility. Wastewater deficiencies adjusted to zero to reflect expansion of lines at same time rehabilitation is performed. Hydrology costs adjusted per rationale contained in "Hydrology System Infrastructure" in Chapter 9

**Table 48 City and County Public Growth Costs, Downtown Scenario¹
(in millions)**

Item	Annual Growth Related Need	Annual Spending	Projected Spending Shortfall
Water ²	\$4.6	\$3.3	-\$1.3
Wastewater ³	\$1.2	\$1.8	\$.6
Storm Drainage	\$5.0	\$3.0	-\$2.0
Streets ⁴	\$4.3	\$6.8	\$2.5
Transit	\$10.0	\$0.0	-\$10.0
Total	\$25.1	\$14.9	-\$10.2

Source: City of Albuquerque, Planned Growth Strategy Management Committee, correspondence to Growth Management Analysts, October 3, 2000, updated March 12, 2001. Based on Chapter 9.0 City and County Financial and Planning Requirements.

1. To compare spending needs with actual spending, this table does not remove Utility Expansion Charge revenue from the need figures.
2. The San Juan-Chama project has been removed from the need total because the revenues to construct the project are being collected into a reserve fund but not expended. This action controls for this situation. Need related to New Mexico Utilities, Inc. also have been removed from the table by conservatively assuming that growth will be proportional to the customer base of New Mexico Utilities, Inc. (3.7% of total utility customers). This was done because growth related expenditures were not obtained from New Mexico Utilities, Inc. Cost of water rights also removed to reflect the adequacy of current water rights through the 25-year study period.
3. The cost of expansion of the wastewater treatment plant (\$73.4 million) was removed from the growth total because this expansion is not needed for at least 10 years.
4. Street needs and spending only include City and County figures and exclude state figures.

development. To some extent, private costs are not an issue to the public sector but, as will be shown later, they should be.

6.4 Components of Costs

In general, there are five significant types of costs:

1. Replacement and Rehabilitation
2. Deficiency
3. Growth-related
4. Operations and Maintenance
5. Inherited

6.4.1 Replacement and Rehabilitation Costs

Systems wear down and need to be improved to continue service. One form of improvement is *replacement* where a unit of the system is removed and replaced with a newer one. If the unit remains reasonably functional, it may be restored through *rehabilitation*. At some point in time, all system units need to be replaced or rehabilitated (except some Roman sewers that still are in service). Replacement and rehabilitation is financed typically from general rates and taxes, proceeds from bonds, or external sources. Aside from Impact Fees and Utility Expansion Charge revenue, funds for replacement and rehabilitation may come from any source.

Replacement and rehabilitation costs vary, however, by location and density. High cost locations developed at low densities will cost more per unit of service than low cost locations developed at higher densities. Although replacement and rehabilitation costs are not usually apportioned between high- and low-cost areas, there may be no prohibition in doing so. This would improve equity between taxpayers and ratepayers.

6.4.2 Deficiency Costs

If use of a system or a system's components exceeds design standards, a *deficiency* is said to exist. For example, if the local park standard calls for 10 acres of park per 1,000 residents but there are only 7.5 acres presently, there is a deficiency of 2.5 acres of park per 1,000 res-

idents. The presence of a deficiency signals one of two things: either the design standard is set too strictly or a system is not performing adequately. Solutions include relaxing the design standard or expanding the system. If the system must be expanded, the expansion may be financed from general rates and taxes, proceeds from bonds, or external sources. Again, aside from Impact Fees and Utility Expansion Charge revenue, funds to remedy deficiencies may come from any source.

There should be a plan to remedy any deficiency. The plan would describe the nature of the deficiency, estimate the cost to remedy it, and outline the available sources of revenue. Impact Fees and Utility Expansion Charges cannot be used to remedy the deficiency, but general taxes, general rates, nondedicated fee revenues, and external funds may be. The period of time over which a deficiency should be remedied is not clear but would range from a normal capital improvement programming cycle (5–10 years) or a comprehensive planning cycle (20–25 years). Indeed, one Florida court found that a plan to remedy a transportation deficiency over a 20-year period was not unreasonable.⁷⁷ So long as Impact Fees and Utility Expansion Charges are not directly used to remedy deficiencies, there may be wide latitude in the means of doing so.

6.4.3 Growth-Related Costs

To accommodate demands generated by new development, some systems need to be expanded albeit sometimes at great cost. How to finance *growth-related* costs is often a significant public policy debate among local officials. While in the past growth related costs have often been financed through general taxation and rates, bond proceeds retired by dedicated property tax or utility revenue, or external sources, nowadays more attention is paid to the extent to which the source of new demand—new development—should be held accountable for it. Impact Fees and Utility Expansion Charges are tools that may be used to help finance growth-related costs. The City and County have indicated a preference for doing so.

Care should be taken, however, to design growth-related costs recovery systems that are equitable. An area that is costly to serve and may only be developed at low density will naturally cost more per unit of development than an area that is not costly to service and can be developed at higher density. “Service areas” can be used to account for differences in growth-related costs between areas of the jurisdiction.

6.4.4 Operation and Maintenance Costs

The operation and maintenance of systems is necessary to assure that service is delivered. Such costs are normally financed through general tax and rate revenues, user fees, and occasionally external sources. Operation and maintenance costs can vary, however, by location and density. An area that is difficult to service and is developed at low density can cost considerably more to maintain than an area that is easy to service and is developed at higher density. Unfortunately, most operation and maintenance costs are borne equally among all users thus creating some inequities in burden.

6.4.5 Inherited Costs

Developers install substantial amounts of infrastructure within their own projects. They then dedicate this infrastructure to local government, which then *inherits* the operation and maintenance and replacement and rehabilitation obligations. Inherited cost is not often considered in local public finance discussions but should be. Accepting infrastructure installed in a high-cost location developed at low density can have the effect of raising total operation and maintenance and replacement and rehabilitation costs on everyone including those in low-cost, higher density locations. Special cost allocation districts may be used to offset this potential disparity.

6.5 General Financing Approaches

Paying for the Preferred Alternative can be accomplished through the use of such general financing approaches as:

1. General Tax and Rate Revenue
2. Exactions
3. Impact Fees and Utility Expansion Charges
4. Development Agreements
5. Special Districts

External revenue sources are not considered here.

6.5.1 General Tax and Rate Revenue

By far the most common way in which to finance infrastructure is through general taxation and rates. In Albuquerque and Bernalillo County, general taxes are mostly from property taxes and gross receipts taxes. Rate revenue is principally from water and wastewater rates charged by an enterprise fund operating within the urban area.

6.5.2 Exactions

Exactions are essentially conditions of development approval often where a change in land-use classification is involved, such as a zone change or conditional use permit. They may be project or system related. Project-related exactions are those that are necessary to assure adequate servicing of a new development, such as ingress and egress lanes, and perhaps a traffic signal serving only it. System related exactions are those that are needed to service the new development but which may also benefit existing or future development.

6.5.3 Impact Fees and Utility Expansion Charges

Impact fees and Utility Expansion Charges are one-time charges imposed on new development to offset the cost of existing or new capital facilities serving that development. They may only be used for capital expansion or recoupment of costs incurred to provide capacity for new development. They may vary by service area and level of service.

6.5.4 Development Agreements

Development agreements are contracts negotiated between local government and a developer providing the developer with a commitment for receiving permits and perhaps other things for the development in exchange for committing to solve impacts associated with the development. They usually affect only the development site although they can include necessary project-related off-site improvements. Many development agreements address only infrastructure financing issues.

6.5.5 Special Districts

Special districts are essentially single purpose local units of government that generate tax and rate revenue from a defined area to manage infrastructure within that area. They can be used to finance all infrastructure including its installation, replacement and rehabilitation, and operation and maintenance.

6.6 Financing the Growth-Related Costs of the Preferred Alternative

Let us consider how best to finance the growth-related costs of the Preferred Alternative. The basic premise considered here is that new development should be assessed its proportionate share of the cost of existing or new facilities. Conceptually, all new development would pay such things as Impact Fees, Utility Expansion Charges, and the like, or proffer exactions equivalent to its proportionate share. In practice, however, there are many limitations. First, in some situations,

Impact Fees are based on the Capital Improvements Program, but when off-Capital Improvements Program projects are funded by Impact Fees it is existing taxpayers who finance the funding shortfall that results. Second, Impact Fees are notorious for their policy and time-related discounting. Policy discounts reflect the unease local officials may have about assessing the full fee in favor of half (50%) or three-quarters (75%) or other less-than-full-cost figures. Time-related discounts occur when Impact Fee calculations lag behind current dollars. The City of Atlanta, Georgia, for example, has not changed its Impact Fees since initial implementation in 1993.

There are two other limitations. First, how should it relate to annexations, Planned Communities, and rezonings allowing for more intensive development than anticipated? The problem is that existing or planned infrastructure is based on anticipated development and may not be able to accommodate those forms of development or development that is diverted away from places where it was anticipated. Facility costs may increase as development is directed away from existing infrastructure, but Impact Fees will not be adjusted to reflect higher costs.

Second, how should it relate to development in urban infill and target urban redevelopment areas? If it is desirable to have such development, imposing Impact Fees or Utility Expansion Charges there may be counter-productive.

The proportionate share principle should be refined to reflect underlying principles of the Preferred Alternative to assure that new development truly does pay for its full cost in a manner consistent with fostering development in Fully Served Areas. Growth Management Analysts recommends a program of capital facility financing that is based on three tiers: Fully Served Areas, Partially Served Areas, and Unserved Areas.

The recommended approaches include:

1. Fully Served Areas. Because the Preferred Alternative encourages development in Fully Served Areas where excess capacity substantially exists and where infill and redevelopment are desired, proportionate share assessments may not be necessary for certain categories of facilities. Let us consider four categories of facilities: (a) existing local-serving facilities, (b) existing areawide facilities, (c) the special case of wastewater treatment, and (d) new or expanded facilities.

a. *Existing Local-Serving Facilities.* Local-serving facilities, such as fire stations, police stations, water and wastewater distribution and collection lines, water supply and treatment, streets, and neighborhood/community parks, by definition, are considered to be available in Fully Served Areas. In addition, level of service policies

that anticipate more intensive use in Fully Served Areas than elsewhere also contribute to excess capacity. (For example, an existing park in the Fully Served Area need not be expanded to serve perhaps substantially more development nearby that currently exists.) Because capacity exists, financed substantially by existing development in the Fully Served Area, no proportionate share assessments may be needed.

There may be occasions when capital facility expansion is needed to serve new development in Fully Served Areas. To the maximum extent possible, such costs should be borne by the General Fund in most cases and the Enterprise Fund in the case of water and wastewater if the new development is consistent with the Planned Growth Strategy Preferred Alternative. The rationale should be relat-

Table 49 Water—Hypothetical Allocation of Cost to Scenario per Single Family Dwelling

Item	Fully Served with Excess Capacity ¹	Fully Served without Excess Capacity	Partially Served	Unserved Areas
Wells	\$0	\$933	\$933	\$933
Water Rights	\$0	\$1,587	\$1,587	\$1,587
SCADA	\$8	\$8	\$8	\$8
Reservoirs	\$0	\$0	\$0	\$807
Pump Stations	\$0	\$0	\$0	\$471
Transmission Pipelines	\$0	\$0	\$0	\$102
Master Plan Distribution Lines and Lines in Streets	\$0	\$0	\$2,959	\$2,959
Service Connections	\$1,095	\$1,095	\$1,095	\$1,095
Single Family Dwelling Total	\$1,103	\$3,623	\$6,582	\$7,962
Private Cost Amount per Capita	\$1,095	\$1,095	\$4,054	\$4,054
Net Public Cost per Single Family Dwelling	\$8	\$2,528	\$2,528	\$3,908 ²

Source: City of Albuquerque, Planned Growth Strategy Management Committee, correspondence to Growth Management Analysts, October 3, 2000.

- Ridgecrest, Freeway, and Montgomery Trunks within the 1960 City Boundary have excess water capacity.
- For purposes of this table only, 100% of Master Plan Distribution Lines and Lines in Streets assumed to be private sector responsibility. Planned Growth Strategy indicates that 20% of Master Plan Distribution Lines are paid by the public sector.

ed to the general desirability of attracting new development to Fully Served Areas, encouraging infill and redevelopment, facilitating brownfield conversion to beneficial development, and economizing on taxpayer and ratepayer burdens throughout the entire City.

Nonetheless, where capital facility financing costs to accommodate new development in the Fully Served Areas are substantial, perhaps occasioned by success in redirecting development to these areas, Impact Fees may be considered at some later date.

- b. *Existing Areawide Facilities.* Some facilities are areawide, such as E-911, specialized facilities such as a zoo or aquarium, regional parks, and regional highways. In these situations, proportionate share assessments on new development in Fully Served Areas may be appropriate.

The characteristics of local-serving and areawide facilities are indicated in Tables 49–51 and are described in more detail in the section below discussing Partially Served Areas.

- c. *Special Case of Wastewater Treatment.* There exists considerable excess capacity in the present wastewater treatment plant, on the order of 20 million gallons per day or enough to accommodate roughly 200,000 new residents. The Fully Served Area has shouldered the substantial share of the financing burden over the past 50 years. Inasmuch as new development in the Fully Served Area facilitates neighborhood stability, more efficiently uses existing facilities, improves property values, and is consistent with the Preferred Alternative, the wastewater treatment share of Utility Expansion Charges may be waived in this area, assuming the development is consistent with the Planned Growth Strategy Preferred Alternative.

- d. *New or Expanded Facilities.* Although capacity in local-serving facilities exists in throughout the Fully Served Area, there will be occasions when expansion of some facilities is needed to meet unique needs. In these cases, Growth Management Analysts recommends that the General Fund and/or Enterprise Fund be used to

Table 50 Wastewater—Hypothetical Allocation of Cost to Scenario per Single Family Dwelling

Item	Fully Served	Partially Served	Unserved Areas
Master Plan Lines	\$0	\$0	\$512
Small Collection Lines	\$0	\$1,266	\$1,266
Lift Station and Odor Control	\$0	\$0	\$34
Treatment Plant ¹	\$1,046	\$1,046	\$1,046
Service Lines	\$2,400	\$2,400	\$2,400
Single Family Dwelling Total	\$3,446	\$4,712	\$5,258
Private Cost Amount per Single Family Dwelling	\$2,400	\$3,666	\$3,666
Net Public Cost per Single Family Dwelling	\$1,046	\$1,046	\$1,592

Source: City of Albuquerque, Planned Growth Strategy Management Committee, correspondence to Growth Management Analysts, October 3, 2000.

1. The wastewater treatment plant has 76 mgd capacity and current usage of 56 mgd. Excess capacity can be allocated using policy considerations.

finance such facilities if the development is consistent with the Planned Growth Strategy Preferred Alternative. If new or expanded facilities also serve areas outside the Fully Served Area, the share of the cost of those facilities attributable to new development in those outside areas should be assessed proportionately on such new development.

2. Partially Served Areas. For Partially Served Areas requiring a land-use decision or a building permit, the following approaches should be considered to assure that new development pays its proportionate share of the costs for capital facilities.

a. *Impact Fees and Utility Expansion Charges.* In the middle 1990s, the City considered imposing Impact Fees for parks and recreation facilities, transportation facilities, storm drainage facilities, and public safety facilities. It chose not to implement any of them. For water and wastewater facilities, the City chose to continue with Utility Expansion Charges but only at levels below full cost. (The County did enact Impact Fees but set at a relatively small percent of the identified cost of growth.) The City should reconsider Impact Fees and raise Utility Expansion Charges to levels reflecting current costs.

Chapter 5 prepared by Freilich, Leitner & Carlisle puts forth principles guiding service area design and level of service standards for all key public facilities. It is based on assuring that the City and County have an adequate supply of public facilities concurrent with growth and that the fees be related to the tiers advanced by the Preferred Alternative. The conceptual framework is illustrated in Tables 49 and 50.

The Freilich, Leitner & Carlisle chapter lays the foundation for Impact Fee design consistent with the New Mexico Impact Fee Act. It suggests variable levels of service among service areas and layered levels of service. The Growth Management Analysts report, *Development Fees and Growth Management* (December 3, 1996), lays out in more detail the concept of layered serv-

ice areas and variable levels of service. The principles behind such an approach are reflected generally in Table 51.

Impact Fees for all legally allowed facilities should be prepared consistent with the Preferred Alternative, wherever possible using layered service areas and variable levels of service. To the maximum extent possible, however, no revenue credit (other than from nonlocal sources) should be considered.⁷⁸ This can be achieved if the following approach is used.

Impact Fees and Utility Expansion Charges as the Only Source of Local Growth-Related Capital Revenues. To fully implement the proportionate share cost principle, the City and County will need to institute a number of changes in the manner in which facilities are expanded to accommodate new development. Only three sources of revenue should be available to finance growth-related capital costs:

- i. Development agreement revenue,
- ii. Nonlocal revenue such as state and federal transportation funds, and
- iii. Impact Fees and Utility Expansion Charges.

Growth-related capital expansion revenue must be isolated from other types of revenue and used only for growth related purposes. If this can be accomplished, past and future revenue credits need not be an issue in the calculation of Impact Fees. In addition, the current value of excess capacity in existing facilities should be considered in the calculation of Impact Fees and Utility Expansion Charges.

b. *Capital Improvements Program Improvements.* For capital improvements whether on site or off site that are on the Capital Improvements Program and needed by the development before proceeding, the City or County should give the developer the option to either wait for the local government to install those facilities or to install them before scheduled and be reimbursed

based on the City's or County's scheduled projection of such costs and projected timing of improvement. The reimbursement would be only for that share of Capital Improvements Program system improvements that benefit other developments and only then from the portion of Impact Fees and Utility Expansion Charges associated with the improvements provided. In the partially served tier, new development would pay Impact Fees for both local serving facilities and areawide facilities. This assumes that the normal Capital Improvements Program will provide sufficient facility capacity for the new development. The Capital Improvements Program should be project specific, identify the costs and timing of construction, and provide the services required in a manner consistent with the Planned Growth Strategy Preferred Alternative allocations of population and employment.

c. *Project-Related Costs.* The Impact Fees and Utility Expansion Charges should be based on the Capital Improvements Program. (The Capital Improvements Program should also reflect the current value of existing facilities for which there is excess capacity.) If a project needs an improvement off site, such as a turn lane or traffic signal or wastewater line and the Capital Improvements Program does not show this improvement, the project should provide the financing for it.

d. *Non-Capital Improvements Program System Improvements.* For capital improvements, whether on site or off site, that benefit other property that are not on the Capital Improvements Program but that are needed by the project and generally consistent with the Preferred Alternative, the City and County should afford the developer the option to install those facilities and recover that portion of the value benefiting other properties in a "late-comer" arrangement (perhaps with a 10-year sunset provision). This arrangement would be addressed through a development agreement.

e. *Development Agreements.* In situations

where a development is desirable to meet the City's and County's community building objectives,⁷⁹ but the Capital Improvements Program does not provide adequate facilities to serve the development (i.e., the project is inconsistent with the timing and phasing of the Preferred Alternative), a development agreement may be considered. This development agreement would identify what capital facilities will be built, when they will be built, the cost, and the payment and repayment provision.

3. Unserved Areas. Development agreements should be required of all development in all Unserved Areas requiring a land-use decision (including but not limited to plan amendment, zone change, subdivision approval, and conditional use permit). As a preliminary matter, development approval should be given only under the following conditions:

- Development is consistent with the Comprehensive Plan and with the community building objectives of the Planned Growth Strategy Preferred Alternative.⁸⁰ If it is not, then either the plan must be amended or the proposal simply rejected.
- Development does not substantially preempt existing or planned facility capacity that is needed to accommodate projected development. For example, if a wastewater line is installed to serve new 1,000 homes and a discretionary proposal is made that would require extension of that line to serve its 500 homes, even with the developer offering to pay full costs of all infrastructure, the effect of approval would be to displace 500 homes that would have been accommodated closer in. Though in some situations such development may be considered consistent with the Preferred Alternative, in others it may not. This consideration will need to be applied on a case-by-case basis.
- Adequate public facilities exist to serve the development concurrent with its impacts or provisions are made clearly to have those facilities in place concurrent with the impacts of development.⁸¹

Providing that these conditions are met, development agreements should include a capital facility installation, renewal, and maintenance section, perhaps simply called “capital facilities provision.” This provision would assure that the City’s and County’s “no net expense” policy is achieved.

One feature of the development agreement would be the formation of a special taxing district encompassing the boundary of the development. This may be problematic for smaller developments. For water and wastewater facilities, a special rate district may be formed for the development.

Other financial features of the development agreement should include the following:

- a. *Type of Facilities.* Logically, since developments built pursuant to development agreements impact on all facilities, including but not limited to libraries, parks and recreation, fire, police, general government administration, water, wastewater, storm drainage, education, public health, and transportation facilities, all such facilities should be addressed in development agreements to assure that new development mitigates its impacts.
- b. *Project-Related Improvements.* All capital facilities substantially benefiting the development project should be financed by the development. This includes such on-site facilities as water, wastewater, storm drainage, streets, sidewalks, and so forth. It also includes potentially such off-site improvements as street widening and improvement, signalization, extension of mains, and so forth.
- c. *System Improvements.* A system improvement is one which serves development throughout its system, such as an arterial street. For capital improvements, whether on site or off site, that are needed by the development before proceeding and that by their nature include excess capacity that may be used for other, anticipated development, the development agreement should require their installa-

tion by the developer with a payback provision from revenues derived from special taxing and/or rate districts, so that new development in the district using that excess capacity would reimburse the developer who installed it.

- d. *Capital Improvements Program Improvements.* The development agreement should include a provision that would recover from the new development the proportionate share of the costs of area wide Capital Improvements Program improvements. (Even in the Unserved Area, some capital improvements may be included in a Capital Improvements Program which serve the development, such as streets and drainage ways.) Such cost recovery should be based on the tiering arrangement anticipated in the Preferred Alternative. They should not be considered Impact Fees but rather charges consented to in the development agreement.

With facilities that serve all areas, such as expressways, regional mains, and so forth, cost recovery should be based on cumulative benefit. An expressway, for example, is most heavily used at the center where people from Unserved, Partially Served, and Fully Served Areas converge. Capital cost recovery should thus reflect the cumulative effect that each successive tier from the center imposes. This is illustrated in Table 51; it is generally called the cumulative service area concept. (The idea here is not to add unnecessary complexity to assuring that development agreements cover all reasonable capital costs. A simple layered scheme with associated costs is anticipated.)

- e. *Replacement and Rehabilitation.* The special taxing and rate districts would be responsible for financing replacement and rehabilitation of project-related improvements. This can be done through a periodic assessment based on projected depreciation (resulting in level payments) or as needed (resulting in peak payments). These payments would be incorporated

into utility rates and other taxes and fees the City and County may assess.

- f. *Operation and Maintenance.* The special taxing and rate districts would also be responsible for the operation and maintenance of project-related improvements. This can be done through a periodic assessment reflecting those costs. These payments would be incorporated into utility rates and other taxes and fees the City and County may assess.
- g. *Nontaxing District Option.* If a special taxing district cannot be used, the City and County should establish a special assessment coded to the addresses of the properties within the boundaries of the development to accomplish the same effect. This would also be part of the development agreement.
- h. *Utility Expansion Charges and Impact Fees.* Because development agreements cover local serving and areawide capital costs associated with the affected development, Utility Expansion Charges and Impact Fees would not be assessed.

Collectively, these provisions may be considered the basis for the City’s and County’s “no net expense” policy affecting all development in the Unserved Areas including the legally defined Planned Communities in the Comprehensive Plan Reserve and Rural Areas.

6.7 Creating Incentives to Support the Preferred Alternative

The approaches described above should do much to shift the financial burden such that lower cost areas pay lower fees and charges while higher cost areas pay higher fees and charges. This alone may level the development playing field between Fully Served, Partially Served, and Unserved Areas. It may also reduce the incentive to build in greenfields because unlike current conditions, greenfield development must confront its full costs. However, more can be done. Growth Management Analysts recommends the following:

- 1. **Brownfield Redevelopment** Brownfields are abandoned or underutilized urban

Table 51 Sample Cumulative Service Area Proportionalities between Categorical Preferred Alternative Areas to be Used to Calculate Proportionate Share Assessments in Development Agreements

Tier	New units	Capital Improvements Program Costs	Share	Cost	Charge
Fully Served ¹	1,000 (25% of total)	\$1,000,000	25.0% of Fully Served	\$250,000	na
Partially Served ²	2,000 (50% of total)	\$2,500,000	50.0% of Fully and Partially Served	\$1,750,000	\$875
Unserved ³	1,000 (25% of total)	\$2,000,000	25.0% of all	\$3,500,000	\$3,500
Total	4,000	\$5,500,000		\$5,500,000	

- 1. No development agreements anticipated.
- 2. Few development agreements anticipated—in situations where the Capital Improvements Program does not provide adequate capacity in time to serve the development.
- 3. All development requiring land-use decisions would be subject to development agreements.

sites with known or unknown toxic hazards. Brownfields cause neighborhood blight. They are also a key element of urban redevelopment if liability and clean-up cost concerns can be addressed. Given the unusual nature of brownfields and their potential to revitalize the urban area, Growth Management Analysts recommends that their redevelopment be exempt from capital expansion assessments for a sufficiently long period as to make this concession an influential economic incentive—perhaps up to 20 years.

2. Fully Served Area Infill and Redevelopment. Because local-serving facilities already exist in the Fully Served Area, new development need not be assessed for capital expansion or recoupment of the value of capacity. It would remain responsible for its proportionate share of area-wide capital expansion and improvements though this may be reduced or eliminated by (a) the share of expansion that benefits new development in partially served or unserved areas (such as expressway improvements) or (b) the capital expansion and improvement financed by the General Fund and/or utility fund assuming the development is consistent with the Planned Growth Strategy Preferred Alternative.

3. Mixed-Use Incentives. In all areas, where reasonable demonstration can be made that projects will internalize facility needs or reduce demands on system improvements (such as through creating jobs-housing balance within them, or creating opportunities to substitute vehicular trips with nonvehicular or transit trips), adjustments to Impact Fees, Utility Expansion Charges, or development agreement charges should be made accordingly. Because these reductions may not be known initially, perhaps the full charges would be paid by the development and the impact of the project on facilities monitored for up to two years after project completion. The difference between expected and observed facility impacts would be the basis for a refund of

a share of charges paid. The cost of monitoring should be borne by the development while the actual monitoring should be done by the local government.

4. Low-Income Housing. To the maximum extent possible, Impact Fees, Utility Expansion Charges, and development agreement charges should be sensitive to:

- Average household size based on housing unit type. Census data usually show that apartments have fewer people per unit living in them than townhouses, which have fewer people than manufactured homes, which have fewer people than single family detached homes. In addition, census data usually show that up to a point, larger detached single family residential units house more people than smaller ones. These considerations should have an effect on Impact Fees and development agreement charges for police, fire, parks and recreation, library, E-911, emergency medical services, and public administration facilities, rehabilitation, and operation and maintenance.
- Plumbing fixture units vary between residential units. Usually the more plumbing fixture units in a residence, the more impact that residence has on water and wastewater consumption. The utility should calibrate its Utility Expansion Charges on the basis of fixture units. Because such data do not exist presently, the utility may undertake a study that generates a reasonable statistical association between type of unit and unit size, and plumbing fixture units, and then use the coefficients from such association as the multiplier to estimate plumbing fixture units for each existing unit. Owners of such units would be invited to submit their own plumbing fixture unit counts which, if accepted by the utility, would substitute for the utility's estimate. Plumbing fixture units of all new residential development should be captured from all plumbing permits.
- Transit and transportation demand varies by numerous factors that usually favor

smaller homes and forms of attached housing. Perhaps each traffic analysis zone within the planning area should include information on trips, trip lengths, peak trips, and trip mode (transit, carpool) by trip purpose (or purposes in the case of trip chaining) by housing unit type and size of detached single family residential units. This information should then be used to adjust Impact Fees or calculate development agreement charges.

The cumulative effect of these impact refinements should be a considerable reduction in Impact Fees, Utility Expansion Charges, and development agreement charges for low-income housing. Nonetheless, additional consideration should be made to encourage provision of low-income housing, such as payment of Impact Fees, Utility Expansion Charges, and development agreement charges for housing units qualifying for the federal low-income housing tax credit program (which requires a minimum 15-year commitment), units qualifying for Housing and Urban Development Section 8 housing vouchers provided the owner commits to this program for a minimum of 15 years, units qualifying for Housing and Urban Development Section 8 home ownership vouchers provided the owner remains eligible for the voucher for a minimum of 15 years, new public housing authority units, and new housing units provided by the public, private, or nonprofit sectors set aside for families of low income (as defined by Housing and Urban Development) for a minimum of 15 years. A sliding scale assessment should be made for units that are used for fewer than 15 years by low-income households, with interest and a reasonable administrative surcharge based on the original Impact Fee, Utility Expansion Charges, or development agreement charge.

The combination of these incentives plus the facility financing approaches outlined should level the playing field between Fully Served, Partially Served, and Unserved Areas. The result should be that development will become more financially attractive in Fully Served Areas than at present.

6.8 Review of the Tier-Based Capital Facility Financing Program

The purpose of this section is to frame the capital facility financing scheme outlined above. It is composed of three elements. The first reviews the general nature of capital facility financing by tier. The second illustrates the nature of Impact Fee assessments by Planned Growth Strategy tier for eligible facilities. The third summarizes key elements of development approvals affecting capital facility financing by Planned Growth Strategy tier.

6.8.1 General Nature of Capital Facility Financing by Tier

- a. *Fully Served Area.* This is the area where local-serving public facilities already exist and are able to accommodate new development. The Fully Served Area boundaries depend on each facility type. For example, the Fully Served Area for water may be different than for wastewater, transit, storm drainage, fire stations, and so forth. A series of Fully Served Area boundaries will need to be constructed. This can be thought of as a set of overlapping Venn diagrams that create an inclusive set for specific public facilities and services according to the area.
 - *Financing Capital Expansion and Capital Improvements.* Capital facility costs should be covered by the General Fund for most facilities and by the Enterprise Fund for water and wastewater facilities assuming the development is consistent with the Planned Growth Strategy Preferred Alternative.
 - *Impact Fees and Utility Expansion Charges.* In general, new development within the Fully Served Area would be exempt from Impact Fees and Utility Expansion Charges for local-serving facilities, because by definition facilities exist and are able to accommodate it. The limiting factors would be consistency with the Comprehensive Plan.

- *Impact and Utility Expansion Charges for Areawide Facilities.* These charges would be assessed on new development but paid by the General Fund or Enterprise Fund if the development was consistent with Planned Growth Strategy goals and objectives and adopted plans.

b. *Partially Served Area.* This is the area where, in service delivery subareas, some public facilities exist and are able to accommodate new development but others do not exist.

- *Financing Capital Expansion.* To the maximum extent possible, Impact Fees and Utility Expansion Charges should be used to assure that new or expanded facilities needed to support new development are financed through this method. Where the impacts on facilities exceed level of service capacity provided by the Capital Improvements Program, development agreements should be used to finance those costs with pro-rata payback provisions.
- *Utility Expansion Charges and Impact Fees.* Utility Expansion Charges and Impact Fees would be charged to pay for local-serving and area-serving facilities. The level of these charges within subareas of the Partially Served Area should be based on the Capital Improvements Program that is designed to provide the service required for the population and employment growth assumptions in the Planned Growth Strategy Preferred Alternative.

c. *Unserved Area.* This is the area where all or nearly all public facilities needed to support development do not exist. In these areas, new development should be assessed its full cost of all project facilities and its proportionate share of the full cost of areawide facilities. To the maximum extent possible, tax and rate districts should be formed to assume financial responsibility for all project-related and

system capital costs, replacement and rehabilitation, and operations and maintenance for district and system infrastructure that serves the development. The objective in the Unserved Area is to achieve self-sufficiency in terms of capital and service provision, i.e. that the development is the source of all the resources required for capital and operations.

6.8.2 General Nature of Impact Fee Assessments by Tier

Impact Fees and Utility Expansion Charges should be calibrated to reflect unique demands within tiers (local-serving facilities), such as neighborhood and community parks, and collective demands affecting all tiers (area-serving facilities), such as E-911 communication. Table 52 illustrates the nature of service considerations affecting Impact Fee calculations among the tiers and areawide.

6.8.3 Key Elements of Development Approvals Affecting Capital Facilities

Table 53 reviews general principles of apportioning capital facility costs by Planned Growth Strategy tier.

6.9 Concluding Observations

The reformulation of how capital facilities are financed posed here is nothing short of bold but consistent with economic theory (marginal cost pricing), emerging planning theory (full cost accounting), and social justice (assuring that lower income households do not pay more than their proportionate share of their impacts on infrastructure systems). If implemented, the result should be that the private development market internalizes many facility costs that are presently offered by taxpayer and ratepayer subsidy. Said another way, this approach moves closer to free-market costing of services than the current system. If the public costs of development are higher, the development will bear this costs. Alternatively, if the public costs of development are lower, the development receives the benefit of this situa-

tion. The result should be more intensive development of the Fully Served Area than would have occurred otherwise. We know from emerging evidence that the overall effect should be a more urbane metropolitan area

with higher quality of life, lower taxes than the alternative, increased choice in housing options, improved ability to move about, and improved environmental quality.

Table 52 Level of Service Standards and Tiers

Facility	Within Tier Level of Service Consideration (local-serving facilities)	Areawide Level of Service Consideration (area-serving facilities)
Water	Pressure zones, wells, reservoirs, transmission lines.	Surface water treatment.
Wastewater	Basins, collection lines.	Central treatment.
Storm Drainage	Basins, collection facilities.	Diversion channels.
Streets	Collector level of service.	Arterial & expressway level of service.
Parks & Recreation	Neighborhood & community parks.	Regional parks & recreation facilities.
Fire/Emergency Medical Services	Stations based on response time.	Fire Academy. E-911.
Libraries	Libraries.	Administration.
Police/Sheriff	Area commands and mini-substations based on response time.	Central facilities such as administration, Police Academy, E-911.
Cultural Services	City/Countywide.	Art Museum, Zoo, Aquarium, Explora, Botanical Gardens, Balloon Museum.

Table 53 Key Elements of Capital Facility Charges Apportionment by Planned Growth Strategy Tier¹

Facility Element	Fully Served Areas	Partially Served Areas	Unserved Areas
Local-serving facilities	Not applicable	X	
Area-serving facilities	X	X	X
Off-Capital Improvements Program facilities	None	X Pro-rata payback provisions	X Self-sufficiency
Implementation approach	Impact Fees & Utility Expansion Charges	Impact Fees & Utility Expansion Charges. Development Agreement if needed	Development Agreement

1. Assumes that present infrastructure dedication requirements apply.