



City of Phoenix

PLANNING AND DEVELOPMENT DEPARTMENT

To: Mayor and City Council

Date: November 6, 2024

From: Joshua Bednarek *JB*
Planning and Development Director

Subject: CITY OF PHOENIX IMPACT FEE AD HOC COMMITTEE RECOMMENDATIONS
AND COMMENTS

The attached *Recommendations and Comments* were received from Impact Fee Ad Hoc Committee Chair, Heidi Kimball on November 4, 2024.

The Ad Hoc Committee serves a key role as a 'sounding board' for staff to receive feedback on proposed impact fee changes prior to recommendations being made to the City Council. The committee convened fourteen times between January 18, 2024, and October 3, 2024. The committee provided feedback to city staff and professional consultants on the underlying assumptions, including sources of data and computational methods, supporting the Draft Land Use Assumptions and Infrastructure Improvements Plans for each impact fee category.

Committee members included representatives from the Arizona State Land Department, the Sonoran Preserve Initiative, various trade associations with an interest in development, development companies and homebuilders that are active in Phoenix and feature a wide range of residential products, including a low-income housing developer.

Approved:


Alan Stephenson, Deputy City Manager

Attachment: COP IFP Ad Hoc Report

City of Phoenix Impact Fee Ad Hoc Committee
Recommendations and Comments
Draft Land Use Assumptions and IFP Update (2025-2034)
Dated August 2, 2024
Draft Land Use Assumptions and IFP Update

The Ad Hoc Committee recognizes and appreciates the City-led process which was undertaken to develop this Draft IFP 2025 Update in accordance with ARS §9-463.05. City of Phoenix Staff members have been highly communicative, responsive, and inclusive throughout the lengthy process. In particular, we appreciate the transparency Staff has exhibited during the work. At this time, the Impact Fee Ad Hoc Committee is pleased to forward the following recommendations:

- A. With regard to the expansion of water treatment facilities (specifically the planned advanced water treatment facilities (AWF) at the 91st Avenue plant) that benefit new and existing development in the City, the Ad Hoc Committee recommends the following:

In recognition of the significant cost to construct the infrastructure required to provide resiliency in the City's water portfolio through advanced water treatment, the Committee recommends ongoing study and investigation to assure the most economical and effective technology is employed, and the pursuit of grants and other federal funding continues to be undertaken to reduce the cost for this treatment. In the event outside funding (such as federal grants) are obtained and create a significant decrease in the City's cost to construct the infrastructure required for said advanced water treatment, a revision to the IFP to reflect the actual cost is encouraged as soon as possible to avoid a refunding obligation or excess fund revenues.

- B. The Ad Hoc Committee recommends that Staff continues to refine the IFP as needed to ensure new development does not pay more than its proportional share of new public infrastructure required for or impacted by such new development.
- C. Projected 2028 costs are utilized for certain infrastructure cost projections using a 3% inflationary factor. However, given the highly inflated baseline for such calculations, the Committee is concerned that this methodology may result in overstating the actual costs to construct relevant improvements. The Committee recommends that the City closely track actual inflation and current costs to assure that fees are not overstated, and in the event a correction is required, to amend the IFP before the next update in 2029.
- D. The Ad Hoc Committee remains concerned about the City's ongoing use of the 22% fee on all IPF projects for design and administration (and an additional 15% design fee for certain infrastructure, such as arterial streets). Committee questions intended to substantiate the allocation were met with anecdotal references to other cities, prior experience, and the acknowledgement that supporting quantitative data was not readily available nor analyzed. The Committee believes 22% is not reflective of administrative/design costs in the private sector nor do inflationary factors impacting hard costs necessarily correlate to administrative/design costs. Furthermore, given the significant revenue produced through the Transactional Privilege Tax for new construction, we believe this administrative fee should be set aside or offset by TPT revenue.

In addition, the committee would like to make the following comments:

- A. The Ad Hoc Committee recognizes the effort to fairly estimate the costs related to several categories of IFP infrastructure by utilizing the lesser of fees derived from a 'buy-in, plus 10-year' plan-based cost versus a 'build-out' cost per EDU in order to avoid overburdening one cohort of new development over another.
- B. The Ad Hoc Committee acknowledges its role as advisory, and further recognizes the City's obligation to undertake the preparation of the Draft Land Use Assumptions and IFP Update. At the same time, the Committee understands the significant increase in the Impact Fees that will result at a time when housing affordability is increasingly strained and the negative impact this will have on housing attainability for Phoenix residents, especially in the Impact Fee service areas with the largest increases. We encourage the City to undertake a revision of the IFP if factors that would result in a reduction in the fees come about, as well as prior to the next required update, including costs of construction, labor, and land.
- C. Finally, the Committee urges the City to recognize the additional burden of in-lieu fees which further exacerbates affordability (such as the allocation of costs to complete Sonoran Desert Drive to adjacent properties in accordance with their contribution of local traffic). We recognize that such regional infrastructure is difficult to finance with impact fee revenue, but this additional burden will most definitely serve to further increase housing costs in an area of the City where the demand for new homes is high.