Development Impact Fee, Arizona

The State of Arizona, home to the Grand Canyon, has one of the nation's fastest-growing populations. A quarter of the State is comprised of Indian reservations, including the Navajo Nation. With its desert trails, mountains, and plateaus, Arizona is a major destination for backcountry adventure and has many world-class resorts. Numerous large companies are based in the State and its capital, Phoenix, is the fifth-largest city in the United States.

Financial Need and Indicative Solution

As Arizona became increasingly populated, capital infrastructure was needed to keep up with the influx of new developments. There was resistance to raising taxes to cover costs and the State could not rely on declining Federal and State funds. A new source of revenue to cover upfront costs was needed—the State legislature enacted development impact fees (DIFs) and System Development Fees (SDFs). Arizona State Statutes authorize municipalities to collect development impact fees to fund infrastructure necessitated by growth. The Roadway Development Impact Fee is assessed for new or proposed developments to help pay for the arterial roadway capacity needs created by new development. Monies collected must be used to increase roadway traffic capacity (i.e. widening) on roadways specified for improvements. The fees are charged in benefit areas. Fees cannot be used for roadway maintenance or to improve local roads. The fee is assessed at the time of development.

These one-time fees are dedicated to the expansion of public services such as roads, parks, police, and fire services. They apply to new residential and commercial developments, or ones that need to expand public services due to a change.

Development Impact and System Development Fees

Municipal DIFs were enacted by the State in 1982 and can be used for legitimate public services. County DIFs were enacted in 1999 and can be used for water, sewer, streets, parks, and public safety facilities when there is a capital improvement program in place. Arizona is one of the few States that do not enable DIFs for school facilities.

DIFs are paid by developers and calculated based on the benefits received. Each type of land use pays a fair share of the infrastructure required to support development in growth areas. Different areas have unique infrastructure requirements, so the cost of providing the same level of service in each area may vary. This results in over two dozen different types of fees. Most are in three categories: (1) planning fees, which cover the administrative costs for reviewing planning documents; (2) building permit, plan check, and inspection fees, which cover reviewing costs; and (3) capital facilities fees, which cover the upfront costs of capital infrastructure.

DIFs differ in each municipality or county. For instance, in Phoenix, fees for single-family residences are based on their net impact on capital infrastructure, such as estimated water usage, plus a $100 administrative fee. For multifamily, commercial, and industrial developments, they are based on project specifications, such as building size and water meter requirements. All fees are paid on a per-building basis at the time building permits are issued.

Arizona's DIF law is among the nation's most restrictive. The money raised can only be used for specified capital improvements and there must be a reasonable relationship between the fee amount and the development. The funds cannot be used to operate, maintain, repair, alter, or replace capital facilities and can only be assessed for facilities that benefit the development. Fees collected in each service area must be spent in the same area and can only be used to construct new facilities or expand existing ones to service the new development. They must also be administered in a nondiscriminatory manner, which means fees cannot be waived for some developments and not others. If the funds are not used within a specified time frame, they are returned to the developer.

System Development Fees (SDFs) are another way some Arizona towns ensure that the growth-driven capital and infrastructure needs are funded by growth. The Town of Gilbert, for example, adopted these fees in 1997 – assessed in general and utility categories – and collects them at the time a building permit is issued for residential, commercial, and other non-residential development.

Most SDFs are calculated on a uniform basis for all new development. Growth-related projects are considered as increases in current system capacity rather than as specific improvements for any particular geographic location within Gilbert. The only exception is wastewater which is broken out into the Neely and Greenfield service areas. These service areas have unique costs of service and the SDFs are calculated independently for the two service areas to account for this.

Implementation Process

It can take seven or eight months to implement DIFs, largely due to numerous waiting periods. The first step in the process is creating an Infrastructure Improvements Plan (IIP) that identifies the requirements for each necessary public service. Advance notice of 90 days for municipalities and 120 days for counties, along with written documentation supporting and detailing the DIFs, are required. Next, there is a public hearing and the IIP is later adopted. Notice is then given of intent to adopt a DIF ordinance based on the IIP, another public hearing is held, the fees are adopted, and they go into effect 90 days later. While the State explicitly gives municipalities and counties the authority to assess DIFs, they may be legally challenged.

City planning departments work with developers to determine the fee amount based on the development's service area, usage, and size. Municipalities are required to update their fee programs every five years and produce reports that project the amount of growth expected and the necessary public services or facility expansions.

If all other factors are equal, when DIFs are much higher or lower than in nearby jurisdictions, there are greater development pressures in those with lower fees. This is complicated by the State's fragmented tax system because communities rely heavily on commercial uses for revenue, and competition for these high tax-generating uses may affect their willingness to assess fees to fund full recovery costs.

Assessment Examples

DIF levels vary widely. For example, single-family residences in Phoenix are assessed fees ranging from $0 to $12,680 per unit, depending on the jurisdiction, building envelope, and house size. This is largely due to varying levels of capital infrastructure already in place, variations in financing mechanisms used for different facilities, and variations in service standards. DIFs for Maricopa County municipalities, per 1,000 square feet, are $5,538 for single-family homes, $3,618 for multifamily homes, $3,338 for retail buildings, $2,038 for office buildings, and $1,469 for industrial buildings.

Tucson is an example of how DIFs can be used. A total of $935,760.75 was collected in DIFs for a single-family home ($7,505), a 34-unit multifamily residence ($137,700), an office building ($108,509.02), two commercial buildings ($11,939.45 and $262,249.50), and an industrial building ($407,857.78). This amount could pay for 68 percent of a one-lane highway, 40 percent of a public tennis court, two police vehicles and part of a third, and nine percent of a 750-gallon pumper fire truck.

Thanks to DIFs, Arizona is able to provide capital infrastructure for new developments without raising taxes or depending on Federal funds, which spurs more development that contributes to the State's growth.

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