

City of Avondale 2017 Biennial Development Impact Fee Audit

City Council Meeting
Public Hearing
November 20, 2017

Background

- Development impact fees (DIF) are subject statutory requirements on how they are assessed, collected, used, and reported (A.R.S. §9-463.05)
- DIF may be assessed to offset the cost of providing necessary public services to a development.
 - Must be based on Infrastructure Improvement Plan (IIP) adopted by the City.
- City must establish an infrastructure improvement advisory committee or complete a biennial audit of the City's land use assumptions, IIP, and DIF.
 - City did not establish a committee due to the burdensome administrative requirements.

Background

- Biennial audit must:
 - Qualified professional (not City employee/did not prepare the IIP)
 - Review collection and spending of DIF for each project in the IIP
 - Evaluate any inequities in implementing the IIP or imposing the DIF
- Audit results must be posted on City's web site.
- City must conduct a public hearing on the audit within sixty days of the release of the audit report to the public.

Audit Overview

- Raftelis Financial Consultants, Inc. (Raftelis) audit contract was approved March 20, 2017
- Raftelis audited City's IIP, DIF revenues, and expenditures/expenses for the period August 1, 2014 – June 30, 2016
- Eight DIF categories
 - Fire
 - General Government
 - Library
 - Parks and Recreation
 - Police
 - Streets
 - Water
 - Wastewater

Audit Overview

- Audit scope included reviewing all:
 - DIF assessed to new development to determine if they were consistent with the City's adopted fee schedules.
 - Expenditures/expenses by DIF category to determined if they were consistent with the uses included in the IIP.
 - Contained in the City's *Land Use Assumptions, Infrastructure Improvements Plan, and Development Fees Report* prepared by TischlerBise Inc. in March 2014 (March 2014 Report).
 - DIF fund balances at the end of fiscal year 2015-16
- Audit was completed on September 18, 2017.
- Audit report was posted on City's web site on September 27, 2017.

Audit Summary

DIF Revenue

- 340 permits issued over audit period
 - Residential (single unit and multiple unit)
 - Nonresidential (commercial, office and industrial)
- 2,622 individual DIF assessed within the 340 permits (fee category, land use classification, and applicable credits)
- DIF assessments totaled \$9.8 million
- City applied \$1.8 million of developer credits to 280 permits (82.4%)
 - Infill Incentive credit (11 permits, \$246,311)
 - Economic Incentive credit (269 permits, \$1,538,794)
- Net DIF revenue totaled about \$8.0 million.

Audit Summary

DIF Revenue

- Twenty nine (29) discrepancies where audit-calculated DIF differed from the actual DIF assessed.

	<u>Amount</u>
Developer credits incorrectly applied	
Customer undercharged	\$ 8,202
Customer overcharged	358
Incorrect impact fee charged (customer undercharged)	1,890
Correct impact fee charged (fee differed from adopted fee schedule)	30

- The City plans to refund customer overcharges.

Audit Summary

Table 2: Study Period DIFs Assessed, Revenues and Credits by DIF Category

Fee Category	DIFs Assessed			Unadjusted DIF Revenues	Developer Credits	Net DIF Revenues	Outliers
	Residential – Single Unit	Other [1]	Total [2]				
Fire	313	16	329	\$485,799	\$89,119	\$396,679	1
General Govt.	313	16	329	287,866	52,873	234,993	1
Library	313	16	329	142,698	27,410	115,288	5
Parks & Rec.	313	16	329	638,443	115,569	522,874	5
Police	313	16	329	397,875	73,027	324,848	1
Street	313	16	329	2,949,863	525,745	2,424,118	1
Wastewater	310	13	323	2,987,374	547,583	2,439,791	12
Water	312	13	325	1,900,724	353,778	1,546,946	3
Total	2,500	122	2,622	\$9,790,643	\$1,785,105	\$8,005,537	29

[1] Other includes multiple unit residential and non-residential (commercial, office, industrial) land uses.

[2] Of the total 340 permits issued over the Study period, 11 permits were not charged DIFs and a few permits were not charged water and/or wastewater DIFs. Per City staff, the 11 permits that were not charged DIFs were for existing homes/buildings that were adding on to the home/building and additional fees were not required to be paid. The remaining permits that were not charged water and/or wastewater DIFs were due to those DIFs being paid on a previous permit or the development requiring no tie in to the City sewer system (e.g., using septic tanks).

Source: City of Avondale 2017 Biennial Development Impact Fee Audit Report, September 18, 2017.

Audit Summary

Expenditures/Expenses

- Reviewed all expenditures/expenses identified in the City's Development Fee Utilization Report for fiscal years 2015 and 2016 for each of the eight DIF categories.
- Compared reported expenditures/expenses to those included in the IIP contained in the March 2014 Report.
- Identified six projects where the capital project was eligible for DIF funding, but where City provided funding from other sources.
 - City is not required to use DIF revenues and may choose to fund DIF-eligible projects with other sources.
 - Use of alternative funding was intentional.

Table 3: Study Period DIF Expenditures for Review

DIF Category	Project Description	Fiscal Year	Funding Source	Expenditures	Questions/Comments
Fire	RWC Radio System	2014-2015	General Revenues	\$100,373	The Fire Facilities IIP has a "Vehicle and Equipment Investments" project which is 100% DIF-eligible. Is the RWC Radio System expenditure shown in the utilization report included in this project?
Street	McDowell-Bridge to Avondale	2014-2015	General Revenues	\$204,348	The Street Facilities IIP contains a "McDowell Road" project with a CIP no. ST1287 that is 100% DIF-eligible. Is this project and the McDowell-Bridge to Avondale project from the utilization report the same project?
Street	McDowell-Bridge to Avondale	2015-2016	General Revenues	\$312,560	The Street Facilities IIP contains a "McDowell Road" project with a CIP no. ST1287 that is 100% DIF-eligible. Is this project and the McDowell-Bridge to Avondale project from the utilization report the same project?
Water	127 th Ave Waterline-Lower Buckeye to Dysart	2014-2015	Operating Revenues	\$128,792	The Water Facilities IIP contains a "127 th Ave Waterline, Lower Buckeye-Dysart" project with a CIP no. WA1153 that is 100% DIF-eligible. Why were operating revenues used to fund this project?
Water	Wellhead Treatment	2015-2016	Operating Revenues	\$102,213	The Water Facilities IIP contains a "Wellhead Treatment" project with a CIP no. WA1068 that is 100% DIF-eligible. Why were operating revenues used to fund this project?
Sewer	South Avondale/PIR Sewer Line	2014-2015	Sales Tax Revenues	\$4,500	The Wastewater IIP contains a "South Avondale/PIR Sewer Line" project with a CIP no. SW1295 that is 100% DIF-eligible. Why were sales tax revenues used to fund this project?

Source: City of Avondale 2017 Biennial Development Impact Fee Audit Report, September 18, 2017.

Audit Summary

DIF Fund Balances

- Positive and negative DIF fund balances existed at June 30, 2016. The balances follow:

Category	Balance
Fire	\$(2,305,302)
General Government	(713,953)
Library	(1,929,714)
Parks and Recreation	542,456
Police	(658,613)
Streets	2,470,885
Water	3,029,672
Wastewater	(3,388,465)
Sanitation (Discontinued)	83,203

Audit Summary

DIF Fund Balances

- Northwest police and fire stations and wastewater treatment facility expansion (DIF-eligible capital projects) were funded with non-DIF revenue sources, resulting in negative fund balances.
- Future DIF collections will reduce these negative balances.
- Positive fund balances must be spent within:
 - Ten years for non-utility DIF categories
 - Fifteen years for utility DIF categories
- Sanitation DIF was discontinued
 - Balance must be spent on DIF-eligible projects, or
 - Distribute among remaining DIF categories by 2020.

Conclusion

- None of the audit discrepancies reported by Raftelis resulted in noncompliance with A.R.S. §9-463.05.

Public Hearing & Discussion

City of Avondale
2017 Biennial Development
Impact Fee Audit