Land Use Assumptions, Infrastructure Improvements Plan, and Development Fees for Water & Wastewater Facilities

Prepared for:

Town of Gilbert, Arizona

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EXECUTIVE SUMMARY

The Town of Gilbert hired TischlerBise to document land use assumptions, prepare an Infrastructure Improvements Plan (IIP), and update water and wastewater development fees pursuant to Arizona Revised Statutes 9-463.05. Municipalities in Arizona may assess development fees to offset infrastructure costs to a municipality for necessary public services. The development fees must be based on an Infrastructure Improvements Plan (IIP) and Land Use Assumptions. The IIP for each type of infrastructure is in the middle section of this document and the land use assumptions may be found in Appendix C.

Water and wastewater fees are one-time payments used to construct utility system improvements needed to accommodate new development. The fee represents future development's proportionate share of infrastructure costs. Development fees may be used for infrastructure improvements and/or debt service for growth-related infrastructure. In contrast to primary property taxes, development fees may not be used for operations, maintenance, replacement or correcting existing deficiencies.

ARIZONA DEVELOPMENT FEE ENABLING LEGISLATION

Arizona Revised Statutes (ARS) 9-463.05, Arizona's development fee enabling legislation, governs how development fees are calculated for municipalities in Arizona. During the 2011 state legislative session, Senate Bill 1525 was introduced, and ultimately passed into law, which significantly amended the development fee enabling legislation. Key changes included:

- Amending existing development fee programs by January 1, 2012;
- Abandoning existing development fee programs by August 1, 2014;
- Development fee based on adopted land use assumptions and IIP;
- New adoption procedures;
- New definitions, including "necessary public services" to specify types of infrastructure that may be funded with development fees;
- Time limitations in development fee collections and expenditures; and,
- New requirements for credits, "grandfathering" rules, and refunds.

This update of the Town's water and wastewater development fees complies with all of the requirements of Arizona's Development Fee Statute as amended by SB 1525.

Necessary Public Services

According to Arizona's development fee enabling legislation, fees may be only used for construction, acquisition, or expansion of public facilities that are necessary public services. "Necessary public service" means any of the following categories of facilities that have a life expectancy of three or more years and that are owned and operated on behalf of the municipality: water, wastewater, storm water, drainage and flood control facilities, library, streets, fire and police, neighborhood parks and

recreational facilities. Additionally, a necessary public service includes any facility that was financed before June 1, 2011 and that meets the following requirements:

- Development fees were pledged to repay debt service obligations related to the construction of the facility
- After August 1, 2014, any development fees collected are used solely for the payment of principal and interest on the portion of the bonds, notes, or other debt service obligations issued before June 1, 2011 to finance construction of the facility.

Infrastructure Improvements Plan

Development fees must be calculated pursuant to an IIP and shall include:

- A description of the existing necessary public services in the service area and the cost to update, update, improve, expand, correct or replace those necessary public services to meet existing needs and usage and stricter safety, efficiency, environmental or regulatory standards, which shall be prepared by qualified professionals licensed on this state, as applicable.
- An analysis of the total capacity, the level of current usage and commitments for usage of capacity of the existing necessary public services, which shall be prepared by qualified professionals licensed in this state, as applicable.
- A description of all or the parts of the necessary public services or facility expansion and their costs necessitated by and attributable to development in the service area based on the approved land use assumptions, including a forecast of the costs of infrastructure, improvements, real property, financing, engineering and architectural services, which shall be prepared by qualified professionals licensed in the state, as applicable.
- A table establishing the specific level or quantity of use, consumption, generation or discharge of a service unit for each category of necessary public services or facility expansions and an equivalency or conversion table establishing the ratio of a service unit to various types of land uses, including residential, commercial and industrial.
- The total number of projected service units necessitated by and attributable to new development in the service area based on the approved land use assumptions and calculated pursuant to generally accepted engineering and planning criteria.
- The projected demand for necessary public services or facility expansions required by new service units for a period not to exceed ten years.
- A forecast of revenues generated by new service units other than development fees, which shall include estimated state-shared revenue, federal revenue, ad valorem property taxes, construction contracting or similar excise taxes and the capital recovery portion of utility fees attributable to development based on the approved land use assumptions and a plan to include these contributions in determining the extent of the burden imposed by the development.

Qualified Professionals

Qualified professionals must develop the IIP using general accepted engineering and planning practices. A qualified professional is defined as "a professional engineer, surveyor, financial analyst, or planner providing services within the scope of the person's license, education, or experience."

TischlerBise is a fiscal, economic, and planning consulting firm specializing in the cost of growth services. Our services include development fees, fiscal impact analysis, infrastructure funding, user fee and cost of service studies, capital improvement plans, and fiscal software. TischlerBise has prepared over 900 development fee studies over the past 37 years for local governments across the United States.

SUMMARY OF CURRENT AND PROPOSED WATER AND WASTEWATER DEVELOPMENT FEES

Development fees for water and wastewater must be based on the same level of service provided to existing development in the service area. There are two general methods for calculating water and wastewater development fees. The choice of a particular method depends primarily on the timing of infrastructure construction (past or future). Each method has advantages and disadvantages in a particular situation, and can be used simultaneously for different cost components. Reduced to its simplest terms, the process of calculating development impact fees involves two main steps: (1) determining the cost of development-related capital improvements and (2) allocating those costs equitably to various types of development. In practice, though, the calculation of development fees is complicated due to many variables involved in defining the relationship between development and the need for facilities within the designated service area. The following paragraphs discuss three basic methods for calculating development fees and how those methods can be applied.

- Cost recovery is used in instances when a community has oversized a water/wastewater facility or asset in anticipation of future development. This methodology is based on the rationale that new development is repaying the community for its share of the remaining unused capacity.
- Plan-based method utilizes a community's IIP and/or other adopted plans, or engineering studies, to determine water/wastewater capital improvements needed to serve new development.

Evaluation of Credits

Regardless of the methodology, a consideration of "credits" is integral to the development of a legally defensible development fee that conforms to the Arizona Development Fee Statute, as well as national case law. There are two types of "credits" that should be addressed in development fee studies and ordinances. The first is a revenue credit due to possible double payment situations, which could occur when other revenues may contribute to the capital costs of infrastructure covered by the development fee. This type of credit is integrated into the fee calculation, thus reducing the fee amount. The second is a site-specific credit or developer reimbursement for dedication of land or construction of system improvements. This type of credit is addressed in the administration and implementation of the

development fee program. For ease of administration, TischlerBise normally recommends developer reimbursements for system improvements.

Current and proposed development fees for water and wastewater facilities are summarized in Figure 1. There is a fee schedule for development in the Neely Service Area (north Gilbert) and the Greenfield Service Area (south Gilbert).

Figure 1 – Current and Proposed Fees for Utilities

Neely Service Area

All Development (by water meter size) Meter Size (inches)	*Water System & Resource*	*Waste-water*	*Total Proposed Fee*	*Current Total Fee*	*$ Change*	*% Change*
0.75	$8,892	$2,611	$11,503	$9,077	$2,426	27%
1.00	$14,848	$4,359	$19,207	$15,156	$4,051	27%
1.50	$29,604	$8,690	$38,294	$30,216	$8,078	27%
2.00	$47,383	$13,908	$61,291	$48,361	$12,930	27%

Greenfield Service Area

All Development (by water meter size) Meter Size (inches)	*Water System & Resource*	*Waste-water*	*Total Proposed Fee*	*Current Total Fee*	*$ Change*	*% Change*
0.75	$8,892	$5,098	$13,990	$9,916	$4,074	41%
1.00	$14,848	$8,512	$23,360	$16,558	$6,802	41%
1.50	$29,604	$16,971	$46,575	$33,011	$13,564	41%
2.00	$47,383	$27,162	$74,545	$52,835	$21,710	41%

Please note, calculations throughout this Report are based on an analysis conducted using Excel software. Results are discussed in the memo using one-and two-digit places (in most cases), which represent rounded figures. However, the analysis itself uses figures carried to their ultimate decimal places; therefore, the sums and products generated in the analysis may not equal the sum or product if the reader replicates the calculation with the factors shown in the report (due to the rounding of figures shown, not in the analysis).

WATER FACILITIES IIP

ARS 9-463.05.T.7 (a) defines the facilities and assets which can be included as, "Water facilities, including the supply, transportation, treatment, purification and distribution of water, and any appurtenances for those facilities." The Water Facilities IIP includes additional water resources, wells, treatment, storage and major lines.

WATER SERVICE AREA AND SERVICE UNITS

Potable water is supplied via an interconnected grid to all areas of Gilbert. New development in all areas of Gilbert will benefit from the planned improvements. Gilbert has one, town-wide service area for water. Average day gallons of potable water are the service units for water development fees.

CURRENT USE AND AVAILABLE CAPACITY

Current water demand is estimated at 44.01 million gallons per day (MGD). However, peak day demand can reach 63 MGD. Over the next ten years, Gilbert's average daily water demand is expected to increase from 44.01 MGD in 2016 to 53.90 MGD in 2026. Based on the projected average day demand for water, Gilbert staff determined that additional growth-related improvements are necessary. This projection was derived by analyzing utility demand and customer data contained in Gilbert's Comprehensive Annual Financial Report ending 06/30/15 which indicates, when compared to existing population and employment in Gilbert, that each person and job generates 128 gallons in water demand. An analysis of water accounts by Town staff indicate that an Equivalent Residential Unit (ERU) demands 583 gallons per day of peak demand, which is the standard to which the Town must supply water capacity.

Figure W1– Projected Water Demand

Year		Projected Population	Projected Jobs	Projected Connections	Million Gallons Per Avg Day	Annual Increase Pop and Jobs	Annual Increase MGD	Cumulative Increase Pop and Jobs	Cumulative Increase MGD
Base	FY15-16	251,065	93,840	80,485	44.01				
Future1	FY16-17	255,949	95,780	82,077	44.88	6,824	0.87	6,824	0.87
Future2	FY17-18	260,955	97,720	83,698	45.77	6,946	0.89	13,770	1.76
Future3	FY18-19	266,086	99,660	85,348	46.68	7,071	0.91	20,841	2.67
Future4	FY19-20	271,348	101,600	87,029	47.60	7,202	0.92	28,043	3.59
Future5	FY20-21	276,742	104,050	88,859	48.60	7,844	1.00	35,887	4.59
Future6	FY21-22	282,275	106,500	90,722	49.63	7,983	1.02	43,870	5.62
Future7	FY22-23	287,947	108,950	92,618	50.66	8,122	1.04	51,992	6.65
Future8	FY23-24	293,765	111,400	94,547	51.72	8,268	1.06	60,260	7.71
Future9	FY24-25	299,732	113,850	96,511	52.80	8,417	1.08	68,677	8.79
Future10	FY25-26	305,853	116,300	98,511	53.90	8,571	1.10	77,248	9.89

Connections per Person and Job:	4.29
Galllons per Person and Job:	128
Peak Demand per ERU	583

Excluded Costs

Development fees in Gilbert exclude costs to upgrade, update, improve, expand, correct or replace those necessary public services to meet existing needs and usage and stricter safety, efficiency, environmental or regulatory standards. Gilbert's comprehensive Capital Improvement Plan (CIP) includes the cost of these excluded items and have been adjusted accordingly.

NEED FOR WATER FACILITIES

Figure W2 organizes infrastructure improvements into two general categories: Water Resources and Wells/Storage/Lines. Gilbert will acquire an additional 11.74 MGD of surface water rights, costing $3.79 per gallon of capacity ($53,502,000 less current impact fee balance credit of $8,950,000 divided by 11,740,000 gallons). As shown at the bottom of the table below, wells/storage/major lines over the next ten years have a total cost of $56.6 million. These projects will increase water capacity by 14 MGD, for a cost of $4.05 per gallon of capacity ($56,670,245 divided by 14,000,000 gallons).

Figure W2 – Water IIP Summary

Water Resources

#	Description	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	Years 6-10	Total Project
WA083	Water Rights (1,013 ac-ft per yr)	$10,500,000						**$10,500,000**
WA094	Water Rights Phase II (4,350 ac-ft per yr)	$2,400,000	$14,500,000	$2,352,000	$10,000,000			**$29,252,000**
WA098	Tribal 100 Year Water Rights (5,950 ac-ft per yr)	$11,000,000						**$11,000,000**
WA106	NIA Priority CAP Water Acquisition (1,832 ac-ft per yr)	$750,000	$700,000	$700,000	$600,000			**$2,750,000**
	Total	**$24,650,000**	**$15,200,000**	**$3,052,000**	**$10,600,000**	**$0**	**$0**	**$53,502,000**
							Less Current Fee Balance:	$8,950,000
							Net IIP Cost	**$44,552,000**
							Gallons of Capacity per Day =>	11,740,000
							Cost per Gallon of Capacity =>	**$3.79**
							Ten-Year Increase in Gallons per Average Day	9,890,000
							Ten-Year Share of Cost	$37,530,000

Wells, Storage, and Lines

#	Description	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	Years 6-10	Total Project
WA027	2 mgd Well and Reservoir and Pump Station						$13,424,000	**$13,424,000**
WA062	Reservoir, Pump Station and Well Conversion (4 mgd)**	$21,798,245						**$21,798,245**
WA067	Zone 2 to 4 Interconnect		$385,000	$612,000				**$997,000**
WA071	Ray and Recker Well (2 mgd)	$148,000		$5,783,000				**$5,931,000**
WA080	Bridges Well Equipping - Recker and Octotillo (2 mgd)				$1,813,000			**$1,813,000**
WA081	Direct System Well (2 mgd)						$5,932,000	**$5,932,000**
WA088	Trend Homes Direct System Well Conversion (2 mgd)	$1,578,000	$5,197,000					**$6,775,000**
	Total	**$23,524,245**	**$5,582,000**	**$6,395,000**	**$1,813,000**	**$0**	**$19,356,000**	**$56,670,245**
							Gallons of Capacity per Day =>	14,000,000
							Cost per Gallon of Capacity =>	**$4.05**
							Ten-Year Increase in Gallons per Average Day	9,890,000
							Ten-Year Share of Cost	$40,030,000

**Includes interest cost

NEED FOR WATER TREATMENT

The Town's San Tan Water Treatment Facility is a two-phase project for providing water treatment. The 12 MGD first phase, constructed in 2009, has 6 MGD of remaining capacity available, which is not enough to serve projected demand over the next ten years. Therefore, a second phase is planned that will add an additional 12 MGD of capacity. As shown in Figure W4, the remaining principal and interest associated with Phase I is $91,303,474 and the principal and interest on Phase II is estimated a $50,007,738, for a total cost basis of $141,311,212. The Town has $7,830,000 in existing development fees that are credited against this cost, for a net growth-related cost basis of $133,481,212. When this cost is compared to the existing and planned capacity (18 MGD), the cost per gallon of capacity is $7.41. Based on the ten-year projection of water demand, it is projected that the approximately $50.1 million of the total cost basis will be recovered over the next ten years.

Figure W3 – San Tan Water Treatment Cost

Cost of Remaining and Future San Tan Water Treatment	
Remaining Principal and Interest - Phase I	$91,303,474
Future Principal and Interest - Phase II	$50,007,738
TOTAL PRINCIPAL AND INTEREST	***$141,311,212***
Credit for Existing Fee Balance	$7,830,000
NET GROWTH-RELATED PRINCIPAL AND INTEREST	**$133,481,212**
Remaining (6 mgd) and Planned Capacity (12 mgd)	18,000,000
Cost per Gallon of Capacity	$7.41
Ten-Year Increase in Gallons per Average Day	9,890,000
Ten-Year Share of Cost	$50,170,000

PROPOSED WATER DEVELOPMENT FEE

Figure W4 summarizes capital cost factors for the water development fee. The first three line items are for future improvements in the IIP, as discussed above. Based on a review of the Town's utility accounts and peak day consumption, which can reach 63mgd, the Town of Gilbert supplies maximum day demand of 583 peak day gallons of water for an Equivalent Residential Unit (ERU). The additional fee amounts for larger meters are derived using capacity ratios from the American Water Works Association.

Figure W4 – Water Development Fees

Input Variables	*Cost per Gallon of Average Day Capacity*
Water Resources	$3.79
Water Treatment	$7.41
Wells, Storage, and Lines	$4.05
Capital Cost per Gallon of Capacity =>	$15.25
Average Day Gallons of Demand per ERU =>	583
IIP and Development Fee Preparation Cost per Meter =>	$2.79

All Development (per meter)

*Meter Size (inches)**	*Capacity Ratio*	*Proposed Water Fee*	*Current Fee*	*$ Change*	*Percent Change*
0.75	1.00	$8,892	$5,901	$2,991	51%
1.00	1.67	$14,848	$9,854	$4,994	51%
1.50	3.33	$29,604	$19,646	$9,958	51%
2.00	5.33	$47,383	$31,444	$15,939	51%

** Fees for meters larger than two inches will be based on annualized average day demand and the net capital cost per gallon of capacity.*

FORECAST OF REVENUES

Appendix A provides the forecast of revenues required by Arizona's enabling legislation.

Projected Revenue for Water Facilities

Over the next ten years, Gilbert has identified a need for approximately $234.7 million in growth-related water improvements, including $44.56 million in additional water resources, $133.48 million in cost recovery for water treatment capacity, and $56.67 million for wells, storage, and major lines. As shown at the bottom of Figure W5, projected water fee revenue totals $197.70 million over ten years.

These projections assume single family detached customers are 90% of total customers, which is based on the current mix of housing units from the 2014 American Community Survey data. "All Other" includes other types of residential (e.g. townhouses, mobile homes, and apartments) and all nonresidential customers. A 1.5 inch connection is assumed for All Other connections for purposes of preparing this projection.

Figure W5 – Water Fee Revenue Forecast

Growth-Related Costs for Water Facilities

Water Resources	$44,552,000
Water Treatment	$133,481,212
Wells, Storage, and Lines	$56,670,245
Total	$234,703,457

	Year	*Single Detached* $8,892 per connection	*All Other* $29,604 per 1.5" connection
		Connections	*Connections*
Base	FY15-16	77,338	3,147
Year 1	FY16-17	78,784	3,293
Year 2	FY17-18	80,266	3,432
Year 3	FY18-19	81,785	3,563
Year 4	FY19-20	83,343	3,686
Year 5	FY20-21	84,940	3,919
Year 6	FY21-22	86,578	4,144
Year 7	FY22-23	88,257	4,361
Year 8	FY23-24	89,980	4,567
Year 9	FY24-25	91,746	4,765
Year 10	FY25-26	93,558	4,953
	Ten-Yr Increase	16,220	1,806
	Projected Fees =>	$144,230,000	$53,470,000
	Total Projected Revenues (rounded) =>		$197,700,000

WASTEWATER FACILITIES IIP

ARS 9-463.05.T.7 (b) defines the wastewater facilities as "Wastewater facilities, including collection, interception, transportation, treatment, and disposal of wastewater, and any appurtenances for those facilities." The wastewater facilities development fee includes cost recovery for components with surplus capacity and the growth-related cost of planned improvements.

EXISTING FACILITIES AND SERVICE AREAS

The Town has two wastewater service areas, with north Gilbert served by the Neely Water Reclamation Facility (WRF) and south Gilbert served by the Greenfield plant. Separate IIPs and fee schedules have been prepared for both service areas.

CURRENT WASTEWATER USE AND AVAILABLE CAPACITY

Current average day wastewater demand is estimated at 14.23 MGD. However, the Town current provides 19 MGD gallons of wastewater capacity to handle peak demand periods. Over the next ten years, Gilbert's average daily wastewater demand is expected to increase from 14.23 MGD in 2016 to 17.24 MGD in 2026. Based on the projected demand for wastewater, Gilbert staff determined that additional growth-related improvements are necessary. This projection was derived by analyzing utility demand and customer data contained in Gilbert's Comprehensive Annual Financial Report ending 06/30/15, which indicates, when compared to existing population and employment in Gilbert, that each person and job generates 39 gallons in average daily wastewater demand. An analysis of wastewater accounts by Town staff indicate that an Equivalent Residential Unit (ERU) produces 191 gallons per day of peak flow, which is the standard to which the Town must develop wastewater capacity.

Figure WW1 – Wastewater Connections and Average Day Gallons

						Annual Increase		Cumulative Increase	
Year		Projected Population	Projected Jobs	Projected Connections	Million Gallons Per Avg Day	Pop and Jobs	MGD	Pop and Jobs	MGD
Base	FY15-16	251,065	93,840	75,269	14.23				
Future1	FY16-17	255,949	95,780	76,758	14.50	6,824	0.27	6,824	0.27
Future2	FY17-18	260,955	97,720	78,274	14.77	6,946	0.27	13,770	0.54
Future3	FY18-19	266,086	99,660	79,817	15.04	7,071	0.28	20,841	0.81
Future4	FY19-20	271,348	101,600	81,389	15.32	7,202	0.28	28,043	1.09
Future5	FY20-21	276,742	104,050	83,101	15.63	7,844	0.31	35,887	1.40
Future6	FY21-22	282,275	106,500	84,843	15.94	7,983	0.31	43,870	1.71
Future7	FY22-23	287,947	108,950	86,615	16.26	8,122	0.32	51,992	2.03
Future8	FY23-24	293,765	111,400	88,420	16.58	8,268	0.32	60,260	2.35
Future9	FY24-25	299,732	113,850	90,256	16.91	8,417	0.33	68,677	2.68
Future10	FY25-26	305,853	116,300	92,127	17.24	8,571	0.33	77,248	3.01

Connections per Person and Job:	4.58
Galllons per Person and Job:	39
Peak Demand per ERU	191

NEED FOR WASTEWATER FACILITIES

Neely Service Area

Neely WRF has sufficient capacity for projected development over the next ten years. Therefore, the wastewater development fee for the Neely Service Area includes a cost recovery component for available capacity in the Neely plant. As shown in Figure WW2 the latest expansion (2.5 mgd) of the northern plant had a total cost of $27.49 million. From this amount is a deduction of $2,350,000 for existing impact fees, for a net cost of $25,143,968. When this cost is compared to the capacity provided by this expansion (2.5 mgd), this results in a cost of $10.05 per gallon of capacity.

Figure WW2 – Wastewater Reclamation Cost in Neely Service Area

Cost Recovery for Neely WRF Expansion

Total Cost	$27,493,968
Credit for Existing Fee Balance	$2,350,000
Growth-Related Principal and Interest	**$25,143,968**
Additional Capacity (average day gallons)	2,500,000
Cost per Gallon of Capacity	$10.05

Greenfield Service Area

The Greenfield Water Reclamation Facility is a three-phase project for providing treating wastewater. The second phase, constructed in 2007, has 1.8 MGD of remaining capacity available, which is not enough to serve projected demand over the next ten years. Therefore, a third phase is planned that will add an additional 4 MGD of capacity. As shown in Figure WW3, the remaining principal and interest associated with the original plant is $21,509,345 and the principal and interest on Phase III is estimated a $86,662,394, for a total cost basis of $108,171,738. From this amount is deducted the current Greenfield impact fee balance of $13,520,000, for net growth-related cost of $94,651,738. When this cost is compared to the existing and planned capacity (5.8 MGD), the cost per gallon of capacity is $16.31.

Figure WW3 – Wastewater Treatment Cost in Greenfield Service Area

Cost of Remaining and Future Greenfield Water Reclamation Plant

Growth Related Cost associated with Original Plant*	$21,509,345
Future Principal ($60,000,000) and Interest - Phase III	$86,662,394
TOTAL PRINCIPAL AND INTEREST	**$108,171,738**
Credit for Existing Fee Balance	$13,520,000
NET GROWTH-RELATED PRINCIPAL AND INTEREST	**$94,651,738**
Remaining (1.8 mgd) and Additional Phase III Capacity (4 mgd)	5,800,000
Cost per Gallon of Capacity	$16.31

**Assumes prorated share of $95,538,490 ($82,504,168 + interest of $13,034,322) original cost for 8 mgd, compared to remaining capacity of 1.8 mgd*

NEED FOR WASTEWATER COLLECTION AND RECLAIMED WATER REUSE/RECHARGE FACILITIES

Neely Service Area

In the north (Neely) service area, Gilbert will replace an existing lift station and force main, with the new facilities sized to accommodate the ultimate capacity of the Neely plant. This lift station has a cost of $995,000, of which 10% was determined to be growth-related. There are also plans for an additional recovery well at a cost of 1,806,000. Gilbert currently averages 39 gallons of average daily wastewater flow for every person and job. Assuming this average holds constant, the projected increase in Neely Service Area population and jobs should increase wastewater flow by approximately 776,000 gallons over the next ten years. The costs for these improvements are allocated to the ten-year increase in wastewater flow, yielding a cost of $1.28 per gallon for the lift station component and $2.33 per gallon for the recovery well, as shown in Figure WW4.

Figure WW4– Wastewater IIP in Neely Service Area

Wastewater Collection System - Neely

#	Description	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	Years 6-10	**Total Project**
WW070	Candlewood Lift Station & Force Main (10% growth-related)	$233,000	$762,000					**$995,000**
	Total	**$233,000**	**$762,000**	**$0**	**$0**	**$0**	**$0**	**$995,000**
							Ten-Year Increase in Gallons of Demand per Day =>	776,000
							Cost per Gallon of Demand =>	**$1.28**

Reclaimed Water Reuse/Recharge - Neely

#	Description	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	Years 6-10	Total Project
WW089	Recovery Well - Elliot Dist. Park			$1,806,000				**$1,806,000**
	Total	**$0**	**$0**	**$1,806,000**	**$0**	**$0**	**$0**	**$1,806,000**
							Ten-Year Increase in Gallons of Demand per Day =>	776,000
							Cost per Gallon of Demand =>	**$2.33**

Greenfield Service Area

Planned wastewater reuse/recharge improvements in the south (Greenfield) service area are shown in Figure WW5. In a similar manner, the ten-year increase in population and jobs should increase wastewater flow in the Greenfield Service Area by 2.2 MGD over the next ten years. The total cost of planned improvements ($23,194,000) allocated to the increase in wastewater flow, yields a cost of $10.37 per gallon.

Figure WW5– Wastewater IIP in Greenfield Service Area

Reclaimed Water Reuse/Recharge - Greenfield

#	Description	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	Years 6-10	Total Project
WW044	Reclaimed Water Valve Stations			$1,005,000				**$1,005,000**
WW072	Germann and Higley 18" Main	$940,000	$4,476,000					**$5,416,000**
WW077	South Recharge Site Phase III	$1,266,000	$4,835,000					**$6,101,000**
WW078	Pump Station Expansion	$1,596,000						**$1,596,000**
WW094	Recharge Facility/South Area						$9,076,000	**$9,076,000**
	Total	**$3,802,000**	**$9,311,000**	**$1,005,000**	**$0**	**$0**	**$9,076,000**	**$23,194,000**
							Ten-Year Increase in Gallons of Demand per Day =>	2,237,000
							Cost per Gallon of Demand =>	**$10.37**

WASTEWATER DEVELOPMENT FEES IN NEELY SERVICE AREA

Proposed development fees for wastewater facilities in the Neely Service Area are shown in Figure WW6. For nonresidential development, the fee is equal to the net capital cost per gallon of capacity multiplied by the peak day ERU demand factor of 191 gallons of wastewater flow. For meters larger than 0.75 inches, a capacity ratio converts the fee per ERU to a proportionate fee based on hydraulic capacity.

Figure WW6– Neely Wastewater Development Fee Schedule

Neely Service Area	*Cost per Gallon of Average Day Capacity*
Cost Recovery for Wastewater Treatment	$10.05
Wastewater Collection System IIP	$1.28
Reclaimed Water Reuse/Recharge IIP	$2.33
Capital Cost per Gallon of Capacity	$13.66
IIP and Development Fee Preparation Cost per Customer =>	$2.79
Average Day Gallons of Capacity per ERU =>	191

All Development (per meter)

*Meter Size (inches)**	*Capacity Ratio*	*Proposed Sewer Fee*	*Current Fee*	*$ Change*	*Percent Change*
0.75	1.00	$2,611	$3,176	($565)	-18%
1.00	1.67	$4,359	$5,302	($943)	-18%
1.50	3.33	$8,690	$10,570	($1,880)	-18%
2.00	5.33	$13,908	$16,917	($3,009)	-18%

** Fees for meters larger than two inches will be based on annualized average day demand and the net capital cost per gallon of capacity.*

FORECAST OF REVENUES

Appendix A provides the forecast of revenues required by Arizona's enabling legislation.

Development Fee Revenue in Neely Service Area

Over the next ten years, Gilbert has identified a need for approximately $27.94 million in growth-related wastewater improvements in the Neely service area, including $25.14 million in cost recovery for wastewater treatment, $995,000 for the wastewater collection system, and $1.80 million for reuse and recharge improvements. As shown at the bottom of Figure WW7, projected wastewater fee revenue over the next ten years total $13.92 million in the Neely service area.

These projections assume single family detached customers are 90% of total customers, which is based on the current mix of housing units from the 2014 American Community Survey data. "All Other" includes other types of residential (e.g. townhouses, mobile homes, and apartments) and all

nonresidential customers. A 1.5 inch connection is assumed for All Other connections for purposes of preparing this projection.

Figure WW7 – Projected Neely Sewer Fee Revenue

Growth-Related Costs for Neely Service Area Wastewater Facilities

Wastewater Treatment	$25,143,968
Wastewater Collection System	$995,000
Reclaimed Water Reuse/Recharge	$1,806,000
Total	$27,944,968

	Year	*Single Detached* $2,611 per connection	*All Other* $8,690 per 1.5" connection
		Neely Connections	*Neely Connections*
Base	FY15-16	38,791	4,310
Year 1	FY16-17	39,184	4,354
Year 2	FY17-18	39,581	4,398
Year 3	FY18-19	39,980	4,442
Year 4	FY19-20	40,381	4,487
Year 5	FY20-21	40,758	4,528
Year 6	FY21-22	41,137	4,571
Year 7	FY22-23	41,519	4,613
Year 8	FY23-24	41,905	4,656
Year 9	FY24-25	42,293	4,699
Year 10	FY25-26	42,684	4,743
	Ten-Yr Increase	3,893	433
	Projected Fees =>	$10,160,000	$3,760,000
	Total Projected Revenues (rounded) =>		$13,920,000

WASTEWATER DEVELOPMENT FEES IN GREENFIELD SERVICE AREA

Proposed development fees for wastewater facilities in the Greenfield Service Area are shown in Figure WW8. For nonresidential development, the fee is equal to the net capital cost per gallon of capacity multiplied by the peak day ERU demand factor of 191 gallons of wastewater flow. For meters larger than 0.75 inches, a capacity ratio converts the fee per ERU to a proportionate fee based on hydraulic capacity.

Figure WW8– Greenfield Wastewater Development Fee Schedule

Greenfield Service Area	*Cost per Gallon of Average Day Capacity*
Wastewater Collection System	$0.00
Wastewater Treatment	$16.31
Reclaimed Water Reuse/Recharge	$10.37
Capital Cost per Gallon of Capacity	$26.68
Average Day Gallons of Capacity per ERU =>	191
IIP and Development Fee Preparation Cost per Customer =>	$2.79

All Development (per meter)

*Meter Size (inches)**	*Capacity Ratio*	*Greenfield Sewer Connection Fee*	*Current Fee*	*$ Change*	*Percent Change*
0.75	1.00	$5,098	$4,015	$1,083	27%
1.00	1.67	$8,512	$6,704	$1,808	27%
1.50	3.33	$16,971	$13,365	$3,606	27%
2.00	5.33	$27,162	$21,391	$5,771	27%

** Fees for meters larger than two inches will be based on annualized average day demand and the net capital cost per gallon of capacity.*

FORECAST OF REVENUES

Appendix A provides the forecast of revenues required by Arizona's enabling legislation.

Development Fee Revenue in Greenfield Service Area

Over the next ten years, Gilbert has identified a need for approximately $117.84 million in growth-related wastewater improvements in the Greenfield service area, including $94.65 million in cost recovery for wastewater treatment and $23.19 million for reuse and recharge improvements. As shown at the bottom of Figure W9, projected wastewater fee revenue totals $78.76 million over the next ten years.

These projections assume single family detached customers are 90% of total customers, which is based on the current mix of housing units from the 2014 American Community Survey data. "All Other" includes other types of residential (e.g. townhouses, mobile homes, and apartments) and all nonresidential customers. A 1.5 inch connection is assumed for All Other connections for purposes of preparing this projection.

Figure WW9 – Projected Greenfield Sewer Fee Revenue

Growth-Related Costs for Greenfield Service Area Wastewater Facilities

Wastewater Treatment	$94,651,738
Reclaimed Water Reuse/Recharg	$23,194,000
Total	$117,845,738

	Year	*Single Detached* $5,098 per connection	*All Other* $16,971 per 1.5" connection
		Greenfield Connections	*Greenfield Connections*
Base	FY15-16	28,951	3,217
Year 1	FY16-17	29,898	3,322
Year 2	FY17-18	30,866	3,429
Year 3	FY18-19	31,856	3,539
Year 4	FY19-20	32,869	3,652
Year 5	FY20-21	34,033	3,781
Year 6	FY21-22	35,221	3,914
Year 7	FY22-23	36,435	4,048
Year 8	FY23-24	37,673	4,186
Year 9	FY24-25	38,938	4,327
Year 10	FY25-26	40,230	4,470
	Ten-Yr Increase	11,279	1,253
	Projected Fees =>	$57,500,000	$21,260,000
	Total Projected Revenues (rounded) =>		$78,760,000

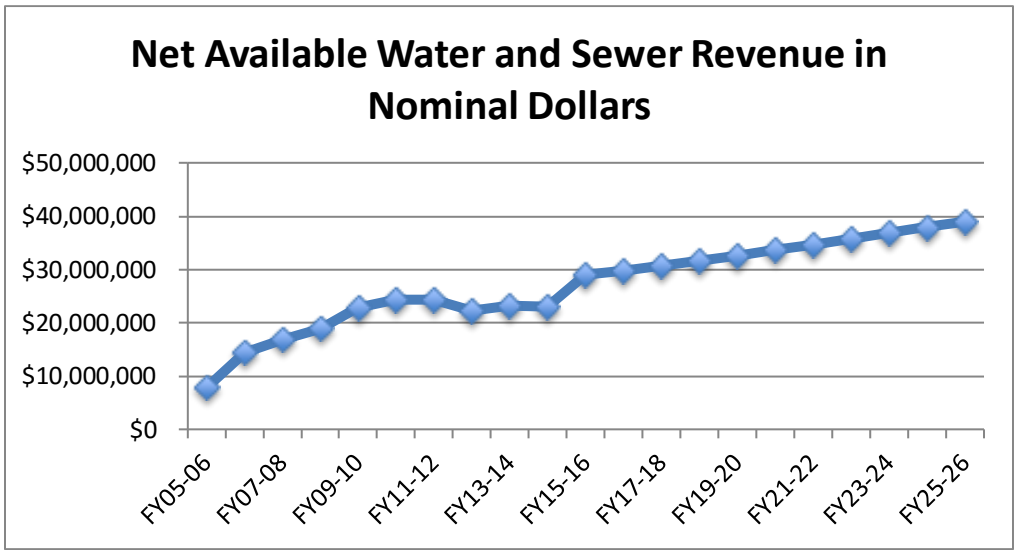
APPENDIX A – FORECAST OF REVENUES OTHER THAN FEES

ARS 9-463.05.E.7 requires "A forecast of revenues generated by new service units other than development fees, which shall include estimated state-shared revenue, highway users revenue, federal revenue, ad valorem property taxes, construction contracting or similar excise taxes and the capital recovery portion of utility fees attributable to development based on the approved land use assumptions, and a plan to include these contributions in determining the extent of the burden imposed by the development as required in subsection B, paragraph 12 of this section."

ARA 9-463.05.B.12 states, "The municipality shall forecast the contribution to be made in the future in cash or by taxes, fees, assessments or other sources of revenue derived from the property owner towards the capital costs of the necessary public service covered by the development fee and shall include these contributions in determining the extent of the burden imposed by the development. Beginning August 1, 2014, for purposes of calculating the required offset to development fees pursuant to this subsection, if a municipality imposes a construction contracting or similar excise tax rate in excess of the percentage amount of the transaction privilege tax rate imposed on the majority of other transaction privilege tax classifications, the entire excess portion of the construction contracting or similar excise tax shall be treated as a contribution to the capital costs of necessary public services provided to development for which development fees are assessed, unless the excess portion was already taken into account for such purpose pursuant to this subsection."

Gilbert does not have a higher than normal construction excise tax rate, so the required offset described above is not applicable. The required forecast of non-development fee revenue that might be used for growth-related utility capital costs is shown in Figure A1. Since water and wastewater capital facilities are provided through Enterprise Funds, with no General Fund subsidy, this analysis focuses on utility revenue. The forecast of available utility revenues was derived from a linear regression analysis. Historical revenue data for the past ten years, obtained from CAFR Schedule 12 (FY ending 06/30/15), were correlated to the growth in population and jobs in Gilbert. Projected population plus jobs, from the land use assumptions, is the independent variable that drives each revenue forecast. Net available water and sewer revenue has, for the most part, increased over time. As explained in a footnote to Schedule 12, net available revenue is combined operating revenues and expenses for Water and Wastewater Funds, less debt service payments for water and wastewater revenue bonds. As Gilbert retires existing debt obligations, net available revenue increases, which allows the Town to either borrow more money in the future, fund rehabilitation and maintenance projects and/or or reduce utility user charges (i.e. water and sewer rates). Development fees will fund most of Town's growth-related capacity costs.

Figure A1 – Graph of Utility Fund Revenue



APPENDIX B – COST OF PROFESSIONAL SERVICES

As stated in Arizona's development fee enabling legislation, "a municipality may assess development fees to offset costs to the municipality associated with providing necessary public services to a development, including the costs of infrastructure, improvements, real property, engineering and architectural services, financing and professional services required for the preparation or revision of a development fee pursuant to this section, including the relevant portion of the infrastructure improvements plan" (see 9-463.05.A). Because development fees must be updated at least every five years, the cost of professional services is allocated to the projected increase in service units, over five years (see Figure B1). Qualified professionals must develop the IIP, using generally accepted engineering and planning practices. A qualified professional is defined as "a professional engineer, surveyor, financial analyst or planner providing services within the scope of the person's license, education or experience".

Figure B1 – Cost of Professional Services

Necessary Public Service	*Cost*	*Demand Indicator*	*Proportionate Share*	*Allocation Unit*	*Five-Year Service Unit Increase**	*Cost per Unit*
Water and Sewer	$45,216	All Development	100%	Water plus Sewer Connections	17,437	$2.59

*Utility connections are projected by comparing existing utility connections to current population and employment in Gilbert.

APPENDIX C – LAND USE ASSUMPTIONS

ARS 9-463.05.T.6 requires preparation of land use assumptions with "projections of changes in land uses, densities, intensities and population for a specified service area over a period of at least ten years and pursuant to the General Plan of the municipality."

TischlerBise prepared current demographic ***estimates*** and future development ***projections*** for both residential and nonresidential development that will be used in the Infrastructure Improvement Plan (IIP) and calculation of the development fees. Demographic data estimates for FY15-16 (ending June 30, 2016) are used in calculating levels-of-service (LOS) provided to existing development in the Town of Gilbert.

Although long-range projections are necessary for planning capital improvements, a shorter time frame of five to ten years is critical for the impact fees analysis. Arizona's Development Fee Statute requires fees to be updated at least every five years and limits the IIP to a maximum of fifteen years (the Town has purposely chosen a ten-year window). Therefore, the use of a very long-range "build-out" analysis is no longer acceptable for deriving development fees in Arizona municipalities.

POPULATION AND JOB FORECAST

TischlerBise compared population and job forecast from the 2014 Development Fee study to the most recent estimates published by Maricopa Association of Governments. The previous study expected 235,772 residents in 2015, but the 2015 population estimate for Gilbert was higher, at 242,955 residents. The previous study forecast 87,987 jobs in Gilbert by 2014, but MAG's 2015 job estimate was 91,900 jobs.

TischlerBise updated Gilbert's land use assumptions by starting with current population and job estimates from MAG. For population growth discussions with Gilbert staff indicate that the Town expects to add approximately 5,500 persons annually over the next ten years. Total jobs for Gilbert's Municipal Planning Area (MPA) are from Maricopa Association of Governments (MAG) socioeconomic projections by Traffic Analysis Zone (TAZ), approved in June 2016. TischlerBise uses the term "jobs" to refer to employment by place of work.

SUMMARY OF LAND USE ASSUMPTIONS

Figure C1 provides a summary of population and dwelling units, by wastewater service area. Neely service area population is forecast increase by 1.0% per year. Population in the Greenfield service area is expected to increase by 3.1% per year. TischlerBise derived dwelling units by area assuming an average of 3.04 persons per housing unit, which the Townwide average per housing unit from the 2014 American Community Survey, published by the US Census Bureau.

Figure C1: Residential Development

Gilbert, Arizona	*FY15-16*	*FY16-17*	*FY17-18*	*FY18-19*	*FY19-20*	*FY20-21*	*FY25-26*
FY ends 6/30	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2026*
	Base Yr	*1*	*2*	*3*	*4*	*5*	*10*
Total Population by Area							
Neely	138,062	139,443	140,837	142,245	143,668	145,104	152,506
Greenfield	113,003	116,506	120,118	123,841	127,680	131,638	153,347
Total Population (Yr-Rd)	251,065	255,949	260,955	266,086	271,348	276,742	305,853

Figure C2 provides base year data and a 10-year forecast of jobs by wastewater service area. Based on the latest MAG employment forecast (June 2016), Consistent with the projected increase in population, the growth rate for jobs is also higher in the Greenfield service area.

Figure C2: Nonresidential Development

Gilbert, Arizona	*FY15-16*	*FY16-17*	*FY17-18*	*FY18-19*	*FY19-20*	*FY20-21*	*FY25-26*
FY ends 6/30	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2026*
	Base Yr	*1*	*2*	*3*	*4*	*5*	*10*
Jobs (by place of work)	Town =>						
Neely Industrial Jobs	13,673	13,818	13,357	13,496	13,635	13,742	13,627
Neely Commercial Jobs	16,051	16,222	16,392	15,949	16,114	16,240	16,871
Neely Office & Other Jobs	29,724	30,040	30,356	31,899	32,228	32,480	34,392
Neely Jobs Subtotal	59,448	60,080	60,712	61,344	61,976	62,462	64,890
Greenfield Industrial Jobs	1,720	1,785	2,220	2,299	2,774	2,911	5,655
Greenfield Commercial Jobs	13,413	13,923	14,063	14,560	15,057	15,388	17,993
Greenfield Office & Other Job	19,260	19,992	20,724	21,457	22,189	23,289	28,275
Greenfield Jobs Subtotal	34,392	35,700	37,008	38,316	39,624	41,588	51,410
Total Jobs - Industrial	15,393	15,603	15,577	15,795	16,408	16,653	19,282
Total Jobs - Commercial	29,464	30,145	30,455	30,510	31,171	31,628	34,865
Total Jobs - Office & Other	48,984	50,032	51,080	53,356	54,417	55,770	62,667
Total Jobs	93,840	95,780	97,720	99,660	101,600	104,050	116,300

Figure C3 provides additional detail on the annual increases in service units. Population is projected to increase at an average annual rate of approximately 5,500 persons. Housing units are projected to increase at an average annual rate of 1,802. Employment is projected to increase at an average annual rate of approximately 2,246. The Town of Gilbert will closely monitor actual development each year. If needed, development fees can be updated prior to the required five-year cycle.

Figure C3: Projected Annual Increases in Gilbert

Annual Increase	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	***2016-2026 Avg Anl***
Population	4,884	5,006	5,131	5,262	5,394	5,533	5,479
Housing Units	1,607	1,647	1,688	1,731	1,774	1,820	1,802
Jobs	1,940	1,940	1,940	1,940	2,450	2,450	2,246

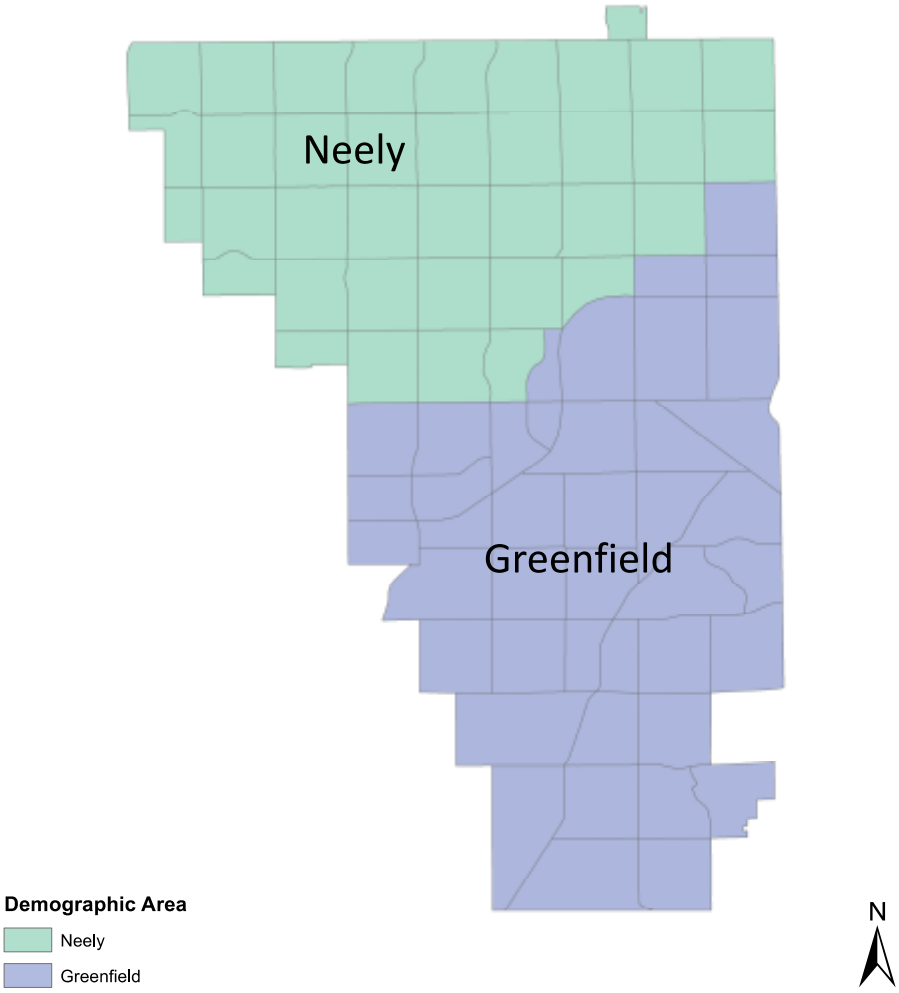
DEMOGRAPHIC AREAS

Land use assumptions for residential and nonresidential development have been prepared for two geographic areas. ARS 9-463.05(T)(9) defines "service area" as follows:

> *"Any specified area within the boundaries of a municipality in which development will be served by necessary public services or facility expansions and within which a substantial nexus exists between the necessary public services or facility expansions and the development being served as prescribed in the infrastructure improvements plan. "*

For all types of infrastructure except wastewater, Gilbert provides town-wide service. Urban development within Gilbert's Municipal Planning Area (MPA) will require municipal water and sewer service, along with annexation. Over time, the incorporated area will increase and eventually match the MPA boundary. For wastewater, the Neely Service Area is defined as the portion of the Town served by the Neely Water Reclamation Plant (WRP) and the Greenfield Service Area is defined as the portion of the Town served by the Greenfield Water Reclamation Plant (WRP). The approximate boundaries of the service areas are shown in the map below, using traffic analysis zones as the geographic "building-blocks" for the land use assumptions. The rationale for determining the service area for each type of infrastructure is discussed and analyzed in the Infrastructure Improvements Plan (IIP).

Figure C4 - Map of Gilbert Service Areas

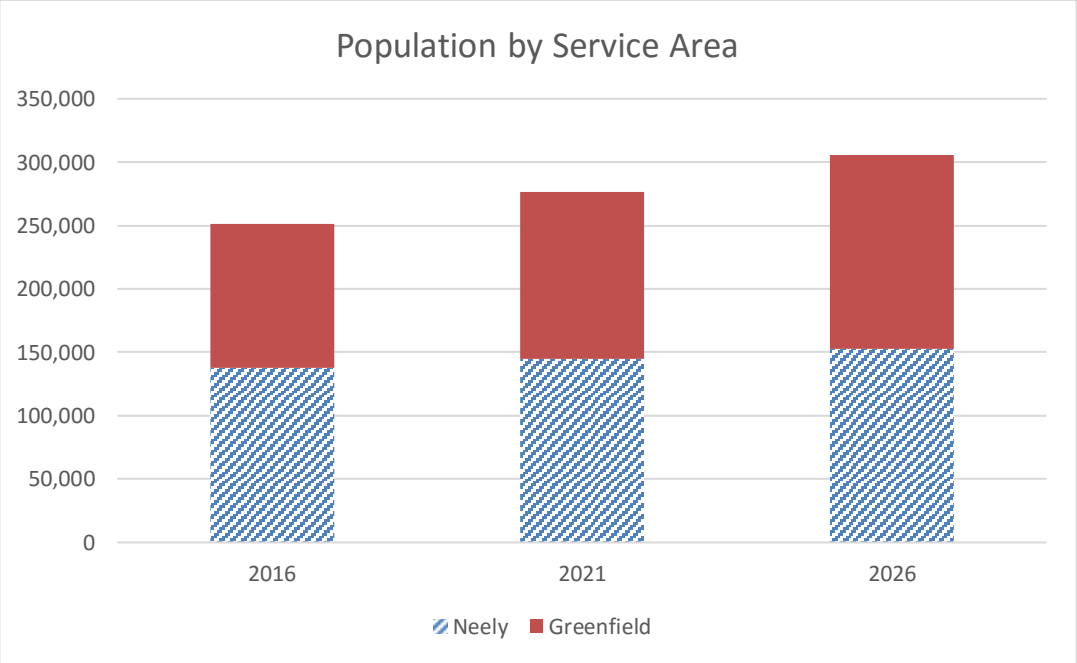


Key residential data by wastewater service area are summarized in Figure C5. The Neely service area has a larger existing base of population and housing units, but it is approaching buildout. In contrast, a larger portion of the projected increase in development will occur in the Greenfield service area. Figure C5 shows population projection by service area. As shown in Figure C5, the Greenfield service area is projected to receive 74% of new population, or 40,344 persons. Neely is projected to increase by 14,444 persons. As stated previously, the population projection is based on a Town of Gilbert assumption that projects an average annual increase of approximately 5,500 persons annually. To assign population increases by service area, TischlerBise assumed a decrease of .05% annually in the Neely service area and in annual increase of .05% in the Greenfield service area.

Figure C5 – Population by Service Area

Total Population

	2016	2021	2026	*Increase*
Neely	138,062	145,104	152,506	14,444
Greenfield	113,003	131,638	153,347	40,344
Townwide	251,065	276,742	305,853	54,788



Source: Townwide population based on 2015 MAG socioeconomic data with an assumption of average annual population growth of approximately 5,500 residents annually.

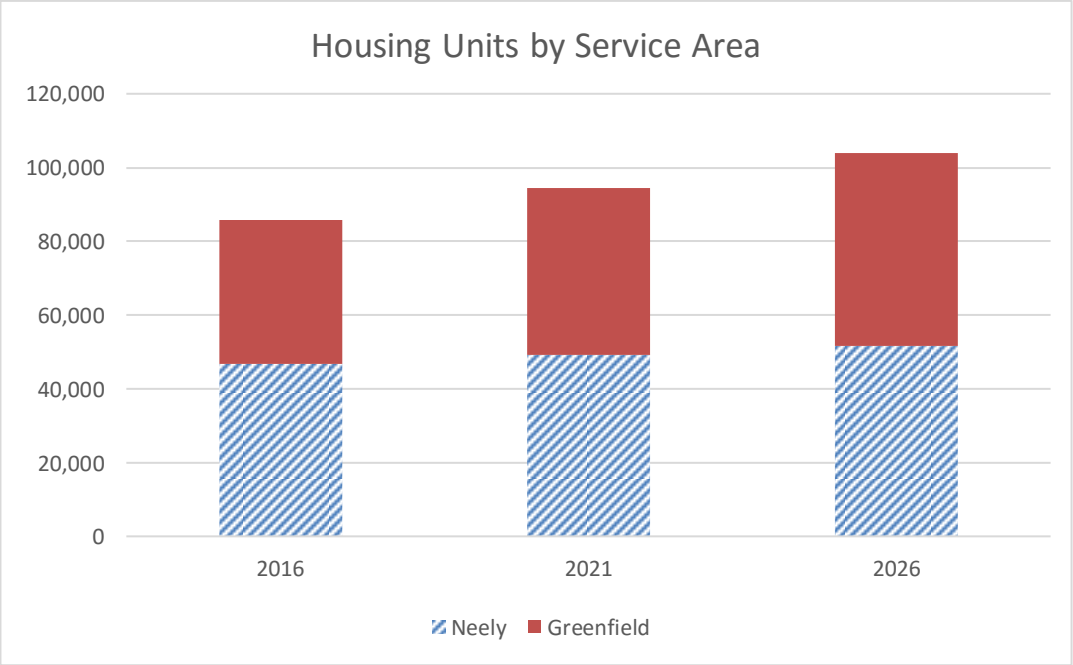
Service area population share assumes assumes a decrease of .05% annually for Neely and an increase of .05% annually for Greenfield

As shown in Figure C6, the Greenfield wastewater service area is projected to receive 74% of new housing units, or 13,271 units. Neely is projected to increase by 4,751 units. Housing unit increases were determined by comparing the net increases in population to the average persons per housing unit (3.04) from the most recent American Community Survey data compiled by the US Census Bureau.

Figure C6 – Housing Units by Service Area

Housing Units

	2016	2021	2026	*Increase*
Neely	46,850	49,166	51,601	4,751
Greenfield	39,082	45,211	52,353	13,271
Townwide	85,931	94,378	103,954	18,022



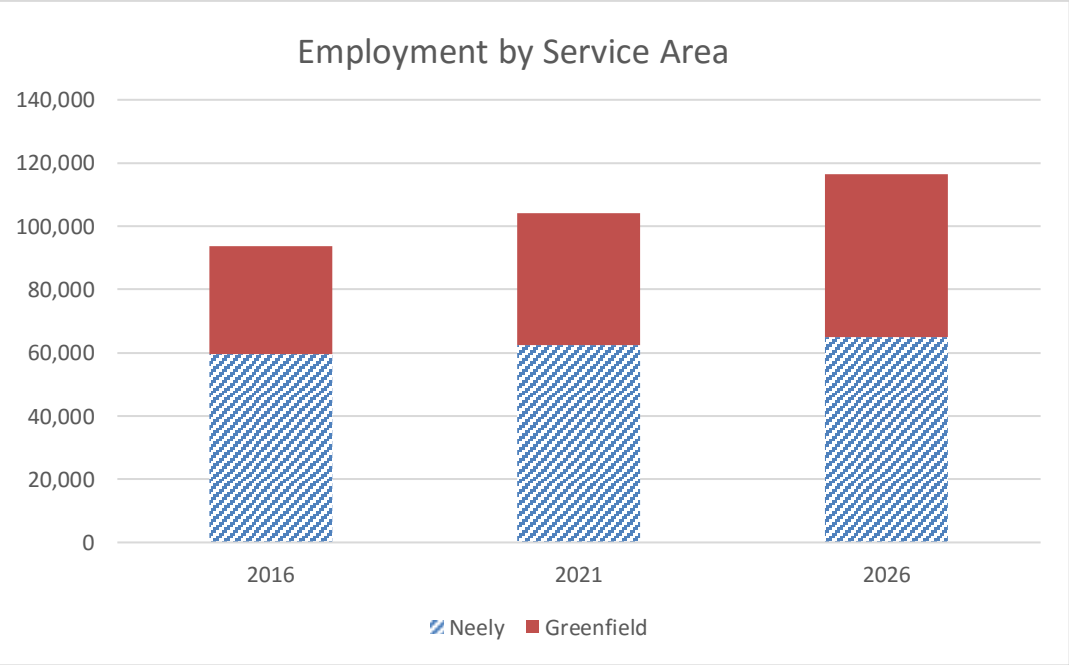
Source: TischlerBise derived housing units from projected population, assuming a persons per housing unit factor of 3.04 from the 2014 American Community Survey Census data.

Figure C7 shows project employment in Gilbert, by wastewater service area. Townwide employment projections are from the most recent MAG socioeconomic projections (June, 2016). As shown in Figure C7, the Greenfield service area is projected to receive 76% of new employment, or 17,018 jobs. Neely is projected to increase by 5,442 jobs. To assign employment increases by service area, TischlerBise assumed a decrease of .05% annually in the Neely service area and in annual increase of .05% in the Greenfield service area.

Figure C7– Employment by Service Area

Employment

	2016	2021	2026	*Increase*
Neely	59,448	62,462	64,890	5,442
Greenfield	34,392	41,588	51,410	17,018
Townwide	93,840	104,050	116,300	22,460



Source: Townwide employment projection is from MAG socioeconomic projections, June 2016. persons per housing unit factor of 3.04 from the 2014 American Community Survey Census data.

Service area employment share assumes assumes a decrease of .05% annually for Neely and an increase of .05% annually for Greenfield