

**Town of Gilbert
System Development Fee
Annual Report**

FY 2018-19



September 2019

UNAUDITED*

* Audited financial statements will be available through the Town of Gilbert Accounting Division.

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BACKGROUND

System Development Fees (SDFs)

The Town of Gilbert, in an effort to ensure that the growth driven capital and infrastructure needs are funded by growth, adopted comprehensive System Development Fees (SDFs) in 1997. The fees are collected at the time a building permit is issued for residential, commercial and other non-residential development. The Town assesses two categories of SDFs - General and Utility.

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 two service areas: Neely and Greenfield. These service areas have unique costs of service and the SDFs are calculated independently for the two service areas to account for this.

Authorization and Purpose

Arizona Revised Statutes Section 9-463.05 authorizes SDFs to fund capital improvements only and SDFs may not be used to fund operating expenses. As an example, the cost to construct and equip a fire station may be funded with SDFs. Firefighting staff assigned to that station may not be funded with SDFs. The amount of the SDF must bear a reasonable relationship to the burden imposed upon the municipality to provide additional necessary public services to the development.

SDFs are calculated based on the Infrastructure Improvement Plan and the annual Capital Improvement Plan. In some cases, depending on the timing and financial requirements of each project, borrowing may also be required. In those cases, all of the borrowing and project costs are included in the amount to be funded through SDFs. In other words, projects that cannot be funded through the revenues generated by new construction permit activity, on a pay as you go basis, are also funded through borrowing. Projects in this category have traditionally been larger projects, such as expansions of the Water and Wastewater Treatment Plants and construction of the Public Safety Complex.

Annual Reporting Requirements

Legislation adopted and signed into law in 2005 and amended in 2011, requires an annual report be prepared to account for the collection and use of development fees. The report is prepared on a cash basis. The report is due within 90 days of the end of each fiscal year and is required to be maintained in the Town Clerk's Office. For the FY 2018-19 reporting period the report is required to be on file by September 28, 2019. The information provided in this report includes development fee revenues and expenses for FY 2018-19; other than the beginning fund balance, the report does not include any inception-to-date detail.

The law also allows for the report to contain financial information that has not yet been audited since the reporting deadline will occur before the annual audit is completed.

The statute was amended by the 2011 Legislature. As amended, A.R.S. §9-463.05(N) provides:

N. Each municipality that assesses development fees shall submit an annual report accounting for the collection and use of the fees for each service area. The annual report shall include the following:

1. The amount assessed by the municipality for each type of system development fee

2. The balance of each fund maintained for each type of system development fee assessed as of the beginning and end of the fiscal year
3. The amount of interest or other earnings on the monies in each fund as of the end of the fiscal year
4. The amount of development fee monies used to repay:
 - (a) Bonds issued by the municipality to pay the cost of a capital improvement project that is the subject of a system development fee assessment, including the amount needed to repay the debt service obligations on each facility for which development fees have been identified as the source of funding and the time frames in which the debt service will be repaid
 - (b) Monies advanced by the municipality from funds other than the funds established for system development fees in order to pay the cost of a capital improvement project that is the subject of a system development fee assessment, the total amount advanced by the municipality for each facility, the source of the monies advanced and the terms under which the monies will be repaid to the municipality
5. The amount of development fee monies spent on each capital improvement project that is the subject of a system development fee assessment and the physical location of each capital improvement project
6. The amount of system development fee monies spent for each purpose other than a capital improvement project that is the subject of a system development fee assessment

A.R.S.§ 9-463.05(O) provides:

O. Within ninety days following the end of each fiscal year, each municipality shall submit a copy of the annual report to the city clerk and post the report on the municipality's website. Copies shall be made available to the public on request. The annual report may contain financial information that has not been audited.

A.R.S.§ 9-463.05(P) provides:

P. A municipality that fails to file the report and post the report on the municipality's website as required by this section shall not collect development fees until the report is filed and posted.

AMOUNT ASSESSED FOR EACH TYPE OF DEVELOPMENT FEE

The information that follows is a summary of the amount assessed for each type of development fee. The General System Development Fees were approved by Council on May 1, 2014 with an effective date of July 15, 2014. The Utility System Development Fees were approved on August 3, 2017 with an effective date of October 17, 2017.

General System Development Fees:

	Police	Fire	General Government	Parks and Recreation	Traffic Signals
<i>Residential (per housing unit)</i>					
Single Unit	\$ 1,719.67	\$ 749.33	\$ 1,155.00	\$ 4,081.00	\$ 450.00
2+ Units per Structure	\$ 1,181.75	\$ 515.25	\$ 794.00	\$ 2,805.00	\$ 296.00
<i>Non-Residential (per sq ft of building)</i>					
Industrial	\$ 0.35	\$ 0.28	\$ 0.20	\$ 0.30	\$ 0.47
Commercial	\$ 0.57	\$ 0.44	\$ 0.30	\$ 0.50	\$ 1.08
Office and Other Services	\$ 0.63	\$ 0.56	\$ 0.40	\$ 0.70	\$ 0.65

Utility System Development Fees:*

Neely Service Area

<i>All Development (by water meter size)</i>	Water and Water Resources	Wastewater
Meter Size (inches)		
0.75	\$ 6,286	\$ 1,933
1.00	\$ 10,495	\$ 3,226
1.50	\$ 20,925	\$ 6,431
2.00	\$ 33,491	\$ 10,292

Greenfield Service Area

<i>All Development (by water meter size)</i>	Water and Water Resources	Wastewater
Meter Size (inches)		
0.75	\$ 6,286	\$ 3,182
1.00	\$ 10,495	\$ 5,313
1.50	\$ 20,925	\$ 10,593
2.00	\$ 33,491	\$ 16,953

*The report dated July 25, 2017 prepared by TischlerBise entitled "Land Use Assumptions, Infrastructure Improvement Plan, and Development Fees for Water and Wastewater Facilities" defines the relevant service areas.

BEGINNING/ENDING FUND BALANCE FOR EACH DEVELOPMENT FEE

	Beginning Balance 7/1/2018	Ending Balance 6/30/2019
Police Protection	\$ 1,822,179	\$ 3,044,898
Fire Protection	\$ (11,192,648)	\$ (9,780,124) ^B
General Government	\$ (6,677,100)	\$ (5,827,940) ^C
Parks and Recreation	\$ 19,978,909	\$ 21,749,066
Parks and Recreation Prior to 2012 ^A	\$ 10,436,411	\$ (4,384,314) ^D
Traffic Signals	\$ 8,982,481	\$ 11,043,163
Water System	\$ 7,028,242	\$ 6,479,747
Water Resources	\$ 2,145,388	\$ (27,705,577) ^E
Wastewater System	0	0 ^F
Neely Service Area - WW SDF	\$ 4,967,691	\$ 5,514,074
Greenfield Service Area - WW SDF	\$ 20,358,062	\$ 18,287,056

- A. Prior to FY 2018, Gilbert reported all the Parks and Recreation SDF collections in one fund. For transparency purposes, the fund balance prior to January 1, 2012 and accrued interest was split out and recorded in a separate fund in FY 2018.
- B. The negative balance in the Fire Protection SDF Fund is supported by an internal loan from the General Fund.
- C. The negative balance in the General Government SDF Fund is supported by an internal load from the General Fund.
- D. The negative balance in the Parks and Recreation Prior to 2012 SDF Fund is supported by an internal loan from the General Fund. Proceeds from a land sale will be deposited into this account in FY 2020 and then the fund will be closed out.
- E. The negative balance in the Water Resources SDF Fund is supported by an internal loan from the Water Replacement Fund.
- F. The Wastewater System SDF Fund was closed out at the end of FY 2018. Wastewater SDF revenue is now divided into two separate service areas: the Neely Service Area and the Greenfield Service Area.

INTEREST EARNINGS ON FUND BALANCES FOR EACH DEVELOPMENT FEE

	Interest Earnings
Police Protection	\$ 75,546
Fire Protection	\$ 0
General Government	\$ 0
Parks and Recreation	\$ 413,874
Parks and Recreation Prior to 2012	\$ 142,003
Traffic Signals	\$ 192,047
Water System	\$ 211,456
Water Resources	\$ 48,962
Neely Service Area - WW SDF	\$ 97,835
Greenfield Service Area - WW SDF	\$ 395,606

DEVELOPMENT FEES USED TO REPAY BONDS ISSUED

	Total Payments
Police Protection	\$ 2,468,176
Fire Protection	\$ 794,238
General Government	\$ 2,045,186
Parks and Recreation	\$ 4,871,739
Parks and Recreation Prior to 2012	\$ 0
Traffic Signals	\$ 0
Water System	\$ 9,808,786
Water Resources	\$ 0
Neely Service Area - WW SDF	\$ 0
Greenfield Service Area - WW SDF	\$ 3,616,428

DEVELOPMENT FEES USED TO REPAY INTERNAL BORROWING

This section relates to development fees where there is a negative cash balance due to funds being expended in advance of collections. Revenues are borrowed from other cash the Town has available and interest is charged to the system development fee accounts.

	Total Payments	Repayment Made To	Terms
Police Protection	\$ 0		
Fire Protection	\$ 230,242	General Fund	Annual Interest
General Government	\$ 137,282	General Fund	Annual Interest
Parks and Recreation	\$ 0		
Parks and Recreation Prior to 2012	\$ 4,005	General Fund	Annual Interest
Traffic Signals	\$ 0		
Water System	\$ 0		
Water Resources	\$ 25,594	Water Replacement Fund	Annual Interest
Neely Service Area - WW SDF	\$ 0		
Greenfield Service Area - WW SDF	\$ 0		

DEBT SERVICE REPAYMENT SCHEDULE

Police Protection	Police Protection Portion of Debt Service - Principal and Interest	Last Payment
2017 PFMPC	\$ 399,502	FY 2027
2014 PFMPC	\$ 3,289,845	FY 2021
2011 PFMPC	\$ 4,144,159	FY 2021
2009 PFMPC	\$ 29,068	FY 2019
Total	\$ 7,862,574	

Fire Protection	Fire Protection Portion of Debt Service - Principal and Interest	Last Payment
2017 PFMPC	\$ 3,590,431	FY 2027
2017 PFMPC	\$ 8,501,100	FY 2027
2011 PFMPC	\$ 504,738	FY 2021
2009 PFMPC	\$ 261,237	FY 2019
Total	\$ 12,857,506	

General Government	General Government Portion of Debt Service - Principal and Interest	Last Payment
2014 PFMPC	\$ 4,694,317	FY 2021
2011 PFMPC	\$ 1,710,425	FY 2021
Total	\$ 6,404,743	

Parks and Recreation	Parks and Recreation Portion of Debt Service - Principal and Interest	Last Payment
2017 PFMPC	\$ 25,201,718	2027
2014 PFMPC	\$ 4,934,029	2021
2009 PFMPC	\$ 1,833,664	2019
Total	\$ 31,969,411	

Parks and Recreation Prior to 2012	Parks and Recreation Prior to 2012 Portion of Debt Service - Principal and Interest	Last Payment
Not Applicable		
Total	\$ 0	

Traffic Signals	Traffic Signals Portion of Debt Service - Principal and Interest	Last Payment
Not Applicable		
Total	\$ 0	

Water System	Water System Portion of Debt Service - Principal and Interest	Last Payment
2016 WRMPC	\$ 143,462,325	FY 2036
Total	\$ 143,462,325	

Water Resources	Water Resources Portion of Debt Service - Principal and Interest	Last Payment
Not Applicable		
Total	\$ 0	

Neely Service Area - WW SDF	Neely Service Area - WW SDF Portion of Debt Service - Principal and Interest	Last Payment
Not Applicable		
Total	\$ 0	

Greenfield Service Area - WW SDF	Greenfield Service Area WW SDF Portion of Debt Service - Principal and Interest	Last Payment
2018 WRMPC	\$ 47,077,100	FY 2031
Total	\$ 47,077,100	

DEVELOPMENT FEES EXPENDED ON EACH CAPITAL IMPROVEMENT PROJECT

Complete descriptions of each project, including all of the identified funding sources, are included in the Gilbert 2019-2028 Capital Improvement Plan or prior approved Capital Improvement Plans. Copies of the documents are available upon request and may also be found on the Gilbert website.

Police System Development Fees

Project	Project Description	Location	Amount
Other	Motorized Equipment and Communication Hardware	Various	\$ 989,088
Other	Biennial System Development Fee Audit	Not Applicable	\$ 1,000
Other	System Development Fee Study	Not Applicable	\$ 8,072
Total			\$ 998,161

Fire System Development Fees

Project	Project Description	Location	Amount
Other	Biennial System Development Fee Audit	Not Applicable	\$ 349
Other	System Development Fee Study	Not Applicable	\$ 8,059
Total			\$ 8,408

General Government System Development Fees

Project	Project Description	Location	Amount
Other	Biennial System Development Fee Audit	Not Applicable	\$ 611
Other	System Development Fee Study	Not Applicable	\$ 4,036
Total			\$ 4,647

Parks and Recreation System Development Fees

Project	Project Description	Location	Amount
PR0310	Gilbert Regional Park	Along the East Maricopa Floodway (Superstition-Santan Corridor and Marathon Trail)	\$ 3,323,056
PR0320	Rittenhouse Regional Park	Bordered by the East Maricopa Floodway, Power Road and the Union Pacific Rail/Rittenhouse alignment	\$ 34,549
Other	Biennial System Development Fee Audit	Not Applicable	\$ 7,215
Other	System Development Fee Study	Not Applicable	\$ 39,162
Total			\$ 3,403,982

Parks and Recreation Prior to 2012 System Development Fees

Project	Project Description	Location	Amount
PR0310	Gilbert Regional Park	Along the East Maricopa Floodway (Superstition-Santan Corridor and Marathon Trail)	\$ 5,163,093
PR0320	Rittenhouse Regional Park	Bordered by the East Maricopa Floodway, Power Road and the Union Pacific Rail/Rittenhouse alignment	\$ 9,795,630
Total			\$ 14,958,723

Traffic Signal System Development Fees

Project	Project Description	Location	Amount
TS1880	Chandler Heights/Seville Blvd	Same as project description	\$ 2,650
TS1890	Higley Rd and Marbella Rd	Same as project description	\$ 7,032
TS1900	Queen Creek and Recker Road	Same as project description	\$ 348,854
TS1910	Pecos and Napa	Same as project description	\$ 23,588
Other	Biennial System Development Fee Audit	Not Applicable	\$ 905
Other	System Development Fee Study	Not Applicable	\$ 8,059
Total			\$ 391,086

Water System Development Fees

Project	Project Description	Location	Amount
WA0670	Zone 2 to Zone 4 Interconnect	Higley Road between Elliot and Guadalupe Roads	\$ 2,245
WA0710	Ray - Recker Direct Well System	NE corner of Ray and Recker Roads	\$ 382,205
WA1230			\$ 783
Other	Biennial SDF Audit	Not Applicable	\$ 6,477
Other	System Development Fee Study	Not Applicable	\$ 8,059
Total			\$ 399,769

Water Resources System Development Fees

Project	Project Description	Location	Amount
WA0940	Water Rights Acquisition	Not Applicable	\$ 1,768,613
WA0980	San Carlos Apache - 100 Yr Water Rights Lease	Not Applicable	\$ 31,208,238
Other	System Development Fee Study	Not Applicable	\$ 8,059
Other	Biennial SDF Audit	Not Applicable	\$ 11,851
Total			\$ 32,996,761

Neely Service Area – Wastewater System Development Fee

Project	Project Description	Location	Amount
Other	Biennial SDF Audit	Not Applicable	\$ 779
Other	System Development Fee	Not Applicable	\$ 8,059
Total			\$ 8,838

Greenfield Service Area – Wastewater System Development Fee

Project	Project Description	Location	Amount
WW0720	Germann and Higley - 18" Reclaimed Water Main	Same as project description	\$ 3,618,762
WW0770	South Recharge Site - Phase III	South Recharge Facility	\$ 236,563
WW078	Greenfield Reclaimed Water Pump Station Expansion	Greenfield Road	\$ 165,891
WW0940	Recharge Facility & 4 Recharge Wells	Various	\$ 17,183
Other	Biennial SDF Audit	Not Applicable	\$ 4,713
Other	System Development Fee Study	Not Applicable	\$ 8,059
Total			\$ 4,051,171

DEVELOPMENT FEE FUND RECAPS

POLICE SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$ 1,822,179
REVENUES	
COLLECTIONS	\$ 4,613,510
INTEREST INCOME	\$ 75,546
EXPENSES	
DEBT SERVICE	\$ 2,468,176
INTERNAL BORROWING	\$ 0
PROJECT EXPENSES	\$ 998,161
ENDING BALANCE	<u>\$ 3,044,898</u>

FIRE SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$ (11,192,648)
REVENUES	
COLLECTIONS	\$ 2,445,412
INTEREST INCOME	\$ 0
EXPENSES	
DEBT SERVICE	\$ 794,238
INTERNAL BORROWING	\$ 230,242
PROJECT EXPENSES	\$ 8,408
ENDING BALANCE	<u>\$ (9,780,124)</u>

GENERAL GOVERNMENT SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$ (6,677,100)
REVENUES	
COLLECTIONS	\$ 3,036,275
INTEREST INCOME	\$ 0
EXPENSES	
DEBT SERVICE	\$ 2,045,186
INTERNAL BORROWING	\$ 137,282
PROJECT EXPENSES	\$ 4,647
ENDING BALANCE	<u>\$ (5,827,940)</u>

PARKS AND RECREATION SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$	19,978,909
REVENUES		
COLLECTIONS	\$	9,632,004
INTEREST INCOME	\$	413,874
EXPENSES		
DEBT SERVICE	\$	4,871,739
INTERNAL BORROWING	\$	0
PROJECT EXPENSES	\$	3,403,982
ENDING BALANCE	\$	<u>21,749,066</u>

PARKS AND RECREATION SYSTEM DEVELOPMENT FEE PRIOR TO 2012

BEGINNING BALANCE	\$	10,436,411
REVENUES		
COLLECTIONS	\$	0
INTEREST INCOME	\$	142,003
EXPENSES		
DEBT SERVICE	\$	0
INTERNAL BORROWING	\$	4,005
PROJECT EXPENSES	\$	14,958,723
ENDING BALANCE	\$	<u>(4,384,314)</u>

TRAFFIC SIGNAL SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$	8,982,481
REVENUES		
COLLECTIONS	\$	2,239,233
INTEREST INCOME	\$	192,047
REFUNDS AND REIMBURSMENTS	\$	20,488
EXPENSES		
DEBT SERVICE	\$	0
INTERNAL BORROWING	\$	0
PROJECT EXPENSES	\$	391,086
ENDING BALANCE	\$	<u>11,043,163</u>

WATER SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$	7,028,242
REVENUES		
COLLECTIONS	\$	9,448,604
INTEREST INCOME	\$	211,456
EXPENSES		
DEBT SERVICE	\$	9,808,786
INTERNAL BORROWING	\$	0
PROJECT EXPENSES	\$	399,769
ENDING BALANCE	\$	6,479,747

WATER RESOURCES SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$	2,145,388
REVENUES		
COLLECTIONS	\$	3,122,428
INTEREST INCOME	\$	48,962
EXPENSES		
DEBT SERVICE	\$	0
INTERNAL BORROWING	\$	25,594
PROJECT EXPENSES	\$	32,996,761
ENDING BALANCE	\$	(27,705,577)

NEELY SERVICE AREA - WASTEWATER SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$	4,967,691
REVENUES		
COLLECTIONS	\$	457,386
INTEREST INCOME	\$	97,835
EXPENSES		
DEBT SERVICE	\$	0
INTERNAL BORROWING	\$	0
PROJECT EXPENSES	\$	8,838
ENDING BALANCE	\$	5,514,074

GREENFIELD SERVICE AREA – WASTEWATER SYSTEM DEVELOPMENT FEE

BEGINNING BALANCE	\$	20,358,062
REVENUES		
COLLECTIONS	\$	5,200,987
INTEREST INCOME	\$	395,606
EXPENSES		
DEBT SERVICE	\$	3,616,428
INTERNAL BORROWING	\$	0
PROJECT EXPENSES	\$	4,051,171
ENDING BALANCE	\$	<u>18,287,056</u>

ADDITIONAL RESOURCES

Gilbert FY2019-FY2028 Capital Improvement Plan – June 7, 2018

**Land Use Assumptions, Infrastructure Improvement Plan and
Development Fees – May 1, 2014**

**Land Use Assumptions, Infrastructure Improvement Plan and
Development Fees for Water and Wastewater Facilities – July 25, 2017**

The documents identified above are available on Gilbert's website at
www.gilbertaz.gov/departments/management-budget/system-development-fees and
<https://www.gilbertaz.gov/departments/management-budget/cip>.

Inquiries should be directed to the Office of Management and Budget:

Phone: 480.503.6757
Email: budget@gilbertaz.gov