

October 4, 2017

Ms. Karen Daines Osburn  
Assistant City Manager  
City of Sedona  
102 Roadrunner Drive  
Sedona, AZ 86336

**RE: 2014 – 2016 Development Impact Fee Review**

Dear Ms. Osburn:

At your request, and in order to accommodate the requirements of Arizona Revised Statute § 9-463.05 (“Impact Fee Act”), we have performed the agreed upon services for the City of Sedona, Arizona (“City”) in relation to the review of City’s development impact fee program pursuant to the scope of work outlined below.

The purpose of the review was to determine whether the City is utilizing funds collected through its Police, Roadway, Storm Drainage, General Government and Parks and Recreation, development impact fee (“DIF”) program for the funding of public improvements as outlined in the City’s DIF Ordinance 2014-09 (“Ordinance”).

The requirements of the Impact Fee Act require a review of the City’s:

- (1) land use assumptions, including determining whether the land use assumptions conform with the City of Sedona’s general plan;
- (2) infrastructure improvements plan, including evaluating the implementation of the infrastructure improvements plan, and reviewing the collection and expenditures of development fees for each project in the plan; and
- (3) development fees, including an evaluation of any inequities in implementing the plan or imposing the development fee; conducted by one or more qualified professionals who are not employees or officials of the municipality and who did not prepare the infrastructure improvements plan.

Accordingly and pursuant to the agreed upon procedures outlined herein, we have performed the following tasks.

**I. Scope of Work Performed**

**A. Land Use Assumptions**

1. Obtained the City’s DIF land use assumptions and General Plan.
2. Obtained information related to the actual number of building permits pulled by category in the City during the analysis period.

3. Obtained the best information available related to the growth of the City's population during the analysis period.
4. Compared the actual results of 2 and 3 above to the Land Use Assumptions for reasonableness.
5. Interviewed the City Planning Director for any current and/or potential amendments to the City's General Plan.

**B. Infrastructure Improvement Plan ("IIP") Review**

1. Obtained the City's IIP, DIF Account Balance Report and general journals by DIF account.
2. On a test basis, selected transactions from the general journal by account and requested supporting documentation for each selected transaction.
3. Determined the appropriateness of each selected transaction by tracing the selected expenditure in to the listing of eligible public facilities as outlined in the IIP.
4. Discussed any discrepancies (if any) with the appropriate City personnel.

**C. DIF Implementation Plan**

1. Obtained the resolution/ordinance adopting the City's DIF program from the City.
2. Obtained the City's current DIF pricing information from the Development Services Department or its equivalent.
3. Determined that the DIF's being charged are equal to or less than that which was outlined in the DIF Study as herein defined and City's ordinance.

**II. Summary of Findings**

Based upon the agreed upon task performed as part of this engagement our findings are as follows.

**A. Land Use Assumptions**

1. Building Permits – The comparison of the May 22, 2014 Final Development Fee Study's ("DIF Study") anticipated residential building activity to actual single family ("SF") and multi-family ("MF") building permits as well as that of commercial uses is shown on the following page. As one will note, SF and MF activity has lagged behind the initial projections while commercial construction has exceeded projections. As the DIF Study was prepared for a ten (10) year analysis period, this difference is not yet considered a material factor that warrants modification and/or update of the DIF Study's land use assumptions. It is recommended that the City continue to monitor the development pace of SF, MF and commercial building permits over the next two (2) year period and to the extent that such activity is materially different from that initially estimated; consideration should be given to modifying the Land Use Assumptions in 2018.

*SF Units*

<b>Description</b>	<b>2014-2015</b>	<b>2015-2016</b>
Estimated SF Units/Land Use Study	41	39
SF Permits Per City	29	34
Difference	12	5

*MF Units*

<b>Description</b>	<b>2014-2015</b>	<b>2015-2016</b>
Estimated MF Units/Land Use Study	7	7
MF Units Per City	0	0
Difference	7	7

*Land Use Assumptions*

*Commercial SF*

<b>Description</b>	<b>2014-2015</b>	<b>2015-2016</b>
Estimated Comm SF / Land Use	34,000	33,000
Comm SF Per City	101,167	29,053
Difference	67,167	3,947

**Source:** City of Sedona Development Services Dept. / Land Use Study

2. Population – A comparison of the current population estimates to those initially included in the DIF Study’s land use assumptions is illustrated below.

*Population*

<b>Description</b>	<b>2014</b>	<b>2015</b>
Population Per Land Use (1)	11,988	12,077
Population Per City	10,176	10,244
Difference	1,812	1,833
<b>Percentage Difference</b>	<b>15.12%</b>	<b>15.18%</b>

**Source:** Office of Employment & Population, Arizona Dept. of Administration.

While there is a significant difference between the City’s current population estimates vis-a-vis the estimates included in the DIF Study, without census information, it is extremely difficult to estimate a community’s population. This combined with the fact that building permit activity is relatively comparable to that projected in the DIF Study makes the revisions to population estimates unnecessary at this time.

3. General Plan – Based upon information obtained from the City’s Planning Director for the time period 2014 through the date of this report (“Report”), there have been four (4) amendments to the City’s General Plan as on the following page.

General Plan Amendment	Acres	General Plan Amendment	
		From	To
2014-29	8.1	Single Family Low Density	Lodging / Natural Open Space
2015-01	0.2	Not Available	Multi-family Medium Density
2016-17	NAP		Establish a Community Focus Area
2016-18	NAP		Establish a Community Focus Area
<b>Total</b>	<b>8.3</b>		

None of the General Plan Amendments shown above are anticipated to lead to changes that could substantially change projected land uses and demand for public facilities. As such, no updates to the DIF Study are required at this time.

**B. IIP Review**

During our review of the City’s IIP and selected transactions from the DIF Account General Ledgers, no transactions conflicted with the City’s IIP and/or the City Ordinance adopted for such purposes. It appears as though the City is administering the DIF program as outlined in the DIF Study and approved by the City Ordinance.

**C. DIF Implementation Plan**

Based upon the agreed to procedures performed, it appears as though the City is administering the DIF program as approved by City Ordinance.

**D. Conclusion**

Given the results of our agreed upon procedures and the General Assumptions and Limiting Conditions of this Report, it appears that the City is adhering to the requirements of the A.R.S. 9-463.05 et seq. (the “Act”).

**III. General Assumptions and Limiting Conditions**

DPFG neither expresses nor implies any warranties of its work nor predicts results of the procedures outlined above. DPFG’s work was performed on a “level-of-effort” basis; that is, the depth of our analyses and extent of our authentication of the information on which our report was predicated, may be limited in some respects due to the extent and sufficiency of available information, and other factors. Moreover, we did not examine any such information in accordance with generally accepted financial auditing or attestation standards. See A.R.S. 9-463.05(G) (2).

This Report was based on information that was current as of October 4, 2017 and DPFG has not undertaken any update of its research effort since such date. Because future events and circumstances, many of which are not known as of the date of this study, may affect the estimates contained herein,

no warranty or representation is made by DPFPG that any of the results contained in this Report will actually be achieved.

Because the analyses are based on estimates and assumptions that are inherently subject to uncertainty and variation depending upon evolving events, we do not represent these as results that will be achieved.

The professionals at DPFPG are not trained legal professionals and as such, we are not providing legal interpretations related to the Act.

This Report is qualified in its entirety by, and should be considered in light of, these assumptions, limitations, and conditions.

Sincerely,

A handwritten signature in black ink, appearing to read "Carter T. Froelich". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Carter T. Froelich  
Managing Principal

CTF/bef