

Senate Engrossed House Bill

municipalities; counties; development fees

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

CHAPTER 121

HOUSE BILL 2946

AN ACT

AMENDING SECTIONS 9-463.05, 9-499.15 AND 9-511.01, ARIZONA REVISED
STATUTES; RELATING TO DEVELOPMENT FEES.

(TEXT OF BILL BEGINS ON NEXT PAG

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 9-463.05, Arizona Revised Statutes, is amended
3 to read:

4 9-463.05. Development fees; imposition by cities and towns;
5 infrastructure improvements plan; annual report;
6 advisory committee; limitation on actions;
7 definitions

8 A. A municipality may assess development fees to offset costs to
9 the municipality associated with providing necessary public services to a
10 development, including the costs of infrastructure, improvements, real
11 property, engineering and architectural services, financing and
12 professional services required for the preparation or revision of a
13 development fee pursuant to this section, including the relevant portion
14 of the infrastructure improvements plan.

15 B. Development fees assessed by a municipality under this section
16 are subject to the following requirements:

17 1. Development fees shall result in a beneficial use to the
18 development.

19 2. The municipality shall calculate the development fee based on
20 the infrastructure improvements plan adopted pursuant to this section.

21 3. The development fee shall not exceed a proportionate share of
22 the cost of necessary public services, based on service units, needed to
23 provide necessary public services to the development.

24 4. Costs for necessary public services made necessary by new
25 development shall be based on the same level of service provided to
26 existing development in the service area.

27 5. Development fees may not be used for any of the following:

28 (a) Construction, acquisition or expansion of public facilities or
29 assets other than necessary public services or facility expansions
30 identified in the infrastructure improvements plan.

31 (b) Repair, operation or maintenance of existing or new necessary
32 public services or facility expansions.

33 (c) Upgrading, updating, expanding, correcting or replacing
34 existing necessary public services to serve existing development in order
35 to meet stricter safety, efficiency, environmental or regulatory
36 standards.

37 (d) Upgrading, updating, expanding, correcting or replacing
38 existing necessary public services to provide a higher level of service to
39 existing development.

40 (e) Administrative, maintenance or operating costs of the
41 municipality.

42 6. Any development for which a development fee has been paid is
43 entitled to the use and benefit of the services for which the fee was
44 imposed and is entitled to receive immediate service from any existing
45 facility with available capacity to serve the new service units if the

1 available capacity has not been reserved or pledged in connection with the
2 construction or financing of the facility.

3 7. Development fees may be collected if any of the following
4 occurs:

5 (a) The collection is made to pay for a necessary public service or
6 facility expansion that is identified in the infrastructure improvements
7 plan and the municipality plans to complete construction and to have the
8 service available within the time period established in the infrastructure
9 ~~improvement~~ IMPROVEMENTS plan, but in no event longer than the time period
10 provided in subsection ~~H~~ I, paragraph 3 of this section.

11 (b) The municipality reserves in the infrastructure improvements
12 plan adopted pursuant to this section or otherwise agrees to reserve
13 capacity to serve future development.

14 (c) The municipality requires or agrees to allow the owner of a
15 development to construct or finance the necessary public service or
16 facility expansion and any of the following ~~apply~~ APPLIES:

17 (i) The costs incurred or money advanced are credited against or
18 reimbursed from the development fees otherwise due from a development.

19 (ii) The municipality reimburses the owner for those costs from the
20 development fees paid from all developments that will use those necessary
21 public services or facility expansions.

22 (iii) For those costs incurred the municipality allows the owner to
23 assign the credits or reimbursement rights from the development fees
24 otherwise due from a development to other developments for the same
25 category of necessary public services in the same service area.

26 8. Projected interest charges and other finance costs may be
27 included in determining the amount of development fees only if the monies
28 are used for the payment of principal and interest on the portion of the
29 bonds, notes or other obligations issued to finance construction of
30 necessary public services or facility expansions identified in the
31 infrastructure improvements plan.

32 9. Monies received from development fees assessed pursuant to this
33 section shall be placed in a separate fund and accounted for separately
34 and may only be used for the purposes authorized by this section. Monies
35 received from a development fee identified in an infrastructure
36 improvements plan adopted or updated pursuant to subsection D of this
37 section shall be used to provide the same category of necessary public
38 services or facility expansions for which the development fee was assessed
39 and for the benefit of the same service area, as defined in the
40 infrastructure improvements plan, in which the development fee was
41 assessed. Interest earned on monies in the separate fund shall be
42 credited to the fund.

43 10. The schedule for payment of fees shall be provided by the
44 municipality. Based on the cost identified in the infrastructure
45 improvements plan, the municipality shall provide a credit toward the

1 payment of a development fee for the required or agreed to dedication of
2 public sites, improvements and other necessary public services or facility
3 expansions included in the infrastructure improvements plan and for which
4 a development fee is assessed, to the extent the public sites,
5 improvements and necessary public services or facility expansions are
6 provided by the developer. The developer of residential dwelling units
7 shall be required to pay development fees when construction permits for
8 the dwelling units are issued, or at a later time if specified in a
9 development agreement pursuant to section 9-500.05. If a development
10 agreement provides for fees to be paid at a time later than the issuance
11 of construction permits, the deferred fees shall be paid no later than
12 fifteen days after the issuance of a certificate of occupancy. The
13 development agreement shall provide for the value of any deferred fees to
14 be supported by appropriate security, including a surety bond, letter of
15 credit or cash bond.

16 11. If a municipality requires as a condition of development
17 approval the construction or improvement of, contributions to or
18 dedication of any facilities that were not included in a previously
19 adopted infrastructure improvements plan, the municipality shall cause the
20 infrastructure improvements plan to be amended to include the facilities
21 and shall provide a credit toward the payment of a development fee for the
22 construction, improvement, contribution or dedication of the facilities to
23 the extent that the facilities will substitute for or otherwise reduce the
24 need for other similar facilities in the infrastructure improvements plan
25 for which development fees were assessed.

26 12. The municipality shall forecast the contribution to be made in
27 the future in cash or by taxes, fees, assessments or other sources of
28 revenue derived from the property owner towards the capital costs of the
29 necessary public service covered by the development fee and shall include
30 these contributions in determining the extent of the burden imposed by the
31 development. ~~Beginning August 1, 2014,~~ For purposes of calculating the
32 required offset to development fees pursuant to this subsection, if a
33 municipality imposes a construction contracting or similar excise tax rate
34 in excess of the percentage amount of the transaction privilege tax rate
35 imposed on the majority of other transaction privilege tax
36 classifications, the entire excess portion of the construction contracting
37 or similar excise tax shall be treated as a contribution to the capital
38 costs of necessary public services provided to development for which
39 development fees are assessed, unless the excess portion was already taken
40 into account for such purpose pursuant to this subsection.

41 13. If development fees are assessed by a municipality, the fees
42 shall be assessed against commercial, residential and industrial
43 development. ~~, except that~~ The municipality may distinguish between
44 different categories of residential, commercial and industrial development
45 in assessing the costs to the municipality of providing necessary public

services to new development and in determining the amount of the development fee applicable to the category of development, EXCEPT THAT THE MUNICIPALITY MAY NOT DISTINGUISH BETWEEN SINGLE-FAMILY RESIDENTIAL DEVELOPMENTS ON THE BASIS OF THE SIZE OF THE RESIDENTIAL DWELLING UNIT OR NUMBER OF BEDROOMS UNLESS THE MUNICIPALITY ADOPTED SUCH DEVELOPMENT FEES BEFORE THE EFFECTIVE DATE OF THIS AMENDMENT TO THIS SECTION. IF A MUNICIPALITY ADOPTED DEVELOPMENT FEES THAT ARE BASED ON THE SIZE OF THE RESIDENTIAL DWELLING UNIT OR THE NUMBER OF BEDROOMS BEFORE THE EFFECTIVE DATE OF THIS AMENDMENT TO THIS SECTION, THE MUNICIPALITY MAY CONTINUE TO MAKE THIS DISTINCTION IN SUBSEQUENT UPDATES TO THE DEVELOPMENT FEES THAT ARE ASSESSED BY THE MUNICIPALITY. If a municipality agrees to waive any of the development fees assessed on a development, the municipality shall reimburse the appropriate development fee accounts for the amount that was waived. The municipality shall provide notice of any such waiver to the advisory committee established pursuant to subsection ~~H~~ H of this section within thirty days.

14. In determining and assessing a development fee applying to land in a community facilities district established under title 48, chapter 4, article 6, the municipality shall take into account all public infrastructure provided by the district and capital costs paid by the district for necessary public services and shall not assess a portion of the development fee based on the infrastructure or costs.

C. A municipality shall give at least thirty days' advance notice of intention to assess a development fee and shall release to the public and post on its website or the website of an association of cities and towns if a municipality does not have a website a written report of the land use assumptions and infrastructure improvements plan adopted pursuant to subsection D of this section. The municipality shall conduct a public hearing on the proposed development fee at any time after the expiration of the thirty day notice of intention to assess a development fee and at least thirty days before the scheduled date of adoption of the fee by the governing body. Within sixty days after the date of the public hearing on the proposed development fee, a municipality shall approve or disapprove the imposition of the development fee. A municipality shall not adopt an ordinance, order or resolution approving a development fee as an emergency measure. A development fee assessed pursuant to this section shall not be effective until seventy-five days after its formal adoption by the governing body of the municipality. Nothing in this subsection shall affect any development fee adopted before July 24, 1982.

D. Before the adoption or amendment of a development fee, the governing body of the municipality shall adopt or update the land use assumptions and infrastructure improvements plan for the designated service area. The municipality shall conduct a public hearing on the land use assumptions and infrastructure improvements plan at least thirty days before the adoption or update of the plan. The municipality shall release

1 the plan to the public, post the plan on its website or the website of an
2 association of cities and towns if the municipality does not have a
3 website, including in the posting its land use assumptions, the time
4 period of the projections, a description of the necessary public services
5 included in the infrastructure improvements plan and a map of the service
6 area to which the land use assumptions apply, make available to the public
7 the documents used to prepare the assumptions and plan and provide public
8 notice at least sixty days before the public hearing, subject to the
9 following:

10 1. The land use assumptions and infrastructure improvements plan
11 shall be approved or disapproved within sixty days after the public
12 hearing on the land use assumptions and infrastructure improvements plan
13 and at least thirty days before the public hearing on the report required
14 by subsection C of this section. A municipality shall not adopt an
15 ordinance, order or resolution approving the land use assumptions or
16 infrastructure improvements plan as an emergency measure.

17 2. An infrastructure improvements plan shall be developed by
18 qualified professionals using generally accepted engineering and planning
19 practices pursuant to subsection E of this section.

20 3. A municipality shall update the land use assumptions and
21 infrastructure improvements plan at least every five years. The initial
22 five year period begins on the day the infrastructure improvements plan is
23 adopted. The municipality shall review and evaluate its current land use
24 assumptions and shall cause an update of the infrastructure improvements
25 plan to be prepared pursuant to this section.

26 4. Within sixty days after completion of the updated land use
27 assumptions and infrastructure improvements plan, the municipality shall
28 schedule and provide notice of a public hearing to discuss and review the
29 update and shall determine whether to amend the assumptions and plan.

30 5. A municipality shall hold a public hearing to discuss the
31 proposed amendments to the land use assumptions, the infrastructure
32 improvements plan or the development fee. The land use assumptions and
33 the infrastructure improvements plan, including the amount of any proposed
34 changes to the development fee per service unit, shall be made available
35 to the public on or before the date of the first publication of the notice
36 of the hearing on the amendments.

37 6. The notice and hearing procedures prescribed in paragraph 1 of
38 this subsection apply to a hearing on the amendment of land use
39 assumptions, an infrastructure improvements plan or a development fee.
40 Within sixty days after the date of the public hearing on the amendments,
41 a municipality shall approve or disapprove the amendments to the land use
42 assumptions, infrastructure improvements plan or development fee. A
43 municipality shall not adopt an ordinance, order or resolution approving
44 the amended land use assumptions, infrastructure improvements plan or
45 development fee as an emergency measure.

1 7. The advisory committee established under subsection ~~G~~ H of this
2 section shall file its written comments on any proposed or updated land
3 use assumptions, infrastructure improvements plan and development fees
4 before the fifth business day before the date of the public hearing on the
5 proposed or updated assumptions, plan and fees.

6 8. If, at the time an update as prescribed in paragraph 3 of this
7 subsection is required, the municipality determines that no changes to the
8 land use assumptions, infrastructure improvements plan or development fees
9 are needed, the municipality may as an alternative to the updating
10 requirements of this subsection publish notice of its determination on its
11 website and include the following:

12 (a) A statement that the municipality has determined that no change
13 to the land use assumptions, infrastructure improvements plan or
14 development fee is necessary.

15 (b) A description and map of the service area in which an update
16 has been determined to be unnecessary.

17 (c) A statement that by a specified date, which shall be at least
18 sixty days after the date of publication of the first notice, a person may
19 make a written request to the municipality requesting that the land use
20 assumptions, infrastructure improvements plan or development fee be
21 updated.

22 (d) A statement identifying the person or entity to whom the
23 written request for an update should be sent.

24 9. If, by the date specified pursuant to paragraph 8 of this
25 subsection, a person requests in writing that the land use assumptions,
26 infrastructure improvements plan or development fee be updated, the
27 municipality shall cause, accept or reject an update of the assumptions
28 and plan to be prepared pursuant to this subsection.

29 10. Notwithstanding the notice and hearing requirements for
30 adoption of an infrastructure improvements plan, a municipality may amend
31 an infrastructure improvements plan adopted pursuant to this section
32 without a public hearing if the amendment addresses only elements of
33 necessary public services in the existing infrastructure improvements plan
34 and the changes to the plan will not, individually or cumulatively with
35 other amendments adopted pursuant to this subsection, increase the level
36 of service in the service area or cause a development fee increase of
37 greater than five ~~per cent~~ PERCENT when a new or modified development fee
38 is assessed pursuant to this section. The municipality shall provide
39 notice of any such amendment at least thirty days before adoption, shall
40 post the amendment on its website or on the website of an association of
41 cities and towns if the municipality does not have a website and shall
42 provide notice to the advisory committee established pursuant to
43 subsection ~~G~~ H of this section that the amendment complies with this
44 subsection.

1 E. For each necessary public service that is the subject of a
2 development fee, the infrastructure improvements plan shall include:

3 1. A description of the existing necessary public services in the
4 service area and the costs to upgrade, update, improve, expand, correct or
5 replace those necessary public services to meet existing needs and usage
6 and stricter safety, efficiency, environmental or regulatory standards,
7 which shall be prepared by qualified professionals licensed in this state,
8 as applicable.

9 2. An analysis of the total capacity, the level of current usage
10 and commitments for usage of capacity of the existing necessary public
11 services, which shall be prepared by qualified professionals licensed in
12 this state, as applicable.

13 3. A description of all or the parts of the necessary public
14 services or facility expansions and their costs necessitated by and
15 attributable to development in the service area based on the approved land
16 use assumptions, including a forecast of the costs of infrastructure,
17 improvements, real property, financing, engineering and architectural
18 services, which shall be prepared by qualified professionals licensed in
19 this state, as applicable.

20 4. A table establishing the specific level or quantity of use,
21 consumption, generation or discharge of a service unit for each category
22 of necessary public services or facility expansions and an equivalency or
23 conversion table establishing the ratio of a service unit to various types
24 of land uses, including residential, commercial and industrial.

25 5. The total number of projected service units necessitated by and
26 attributable to new development in the service area based on the approved
27 land use assumptions and calculated pursuant to generally accepted
28 engineering and planning criteria.

29 6. The projected demand for necessary public services or facility
30 expansions required by new service units for a period not to exceed ten
31 years.

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

40 F. A municipality's development fee ordinance shall provide that a
41 new development fee or an increased portion of a modified development fee
42 ~~shall not be assessed against a development for twenty-four months after~~
43 ~~the date that the municipality issues the final approval for a commercial,~~
44 ~~industrial or multifamily development or the date that the first building~~
45 ~~permit is issued for a residential development pursuant to an approved~~

~~site plan or subdivision plat, provided that no subsequent changes are made to the approved site plan or subdivision plat that would increase the number of service units.~~ A RESIDENTIAL, COMMERCIAL, INDUSTRIAL OR MULTIFAMILY DEVELOPMENT FOR TWENTY-FOUR MONTHS AFTER THE EFFECTIVE DATE OF THE DEVELOPMENT FEE ORDINANCE THAT IMPOSES A NEW OR INCREASED DEVELOPMENT FEE IF NO SUBSEQUENT CHANGES ARE MADE TO THE APPROVED SITE PLAN OR FINAL SUBDIVISION PLAT THAT INCREASE THE NUMBER OF SERVICE UNITS. If the number of service units increases, the new or increased portion of a modified development fee shall be limited to the amount attributable to the additional service units. The twenty-four month period shall not be extended by a renewal or amendment of the site plan or the final subdivision plat that was the subject of the final approval.

G. The municipality shall issue, on request, a written statement of the development fee schedule applicable to the development. If, after the date of the municipality's final approval of a development, the municipality reduces the development fee assessed on development, the reduced fee shall apply to the development.

~~G.~~ H. A municipality shall do one of the following:

1. Before the adoption of proposed or updated land use assumptions, infrastructure improvements plan and development fees as prescribed in subsection D of this section, the municipality shall appoint an infrastructure improvements advisory committee, subject to the following requirements:

(a) The advisory committee shall be composed of at least five members who are appointed by the governing body of the municipality. At least fifty ~~per cent~~ PERCENT of the members of the advisory committee must be representatives of the real estate, development or building industries, of which at least one member of the committee must be from the home building industry. Members shall not be employees or officials of the municipality.

(b) The advisory committee shall serve in an advisory capacity and shall:

(i) Advise the municipality in adopting land use assumptions and in determining whether the assumptions are in conformance with the general plan of the municipality.

(ii) Review the infrastructure improvements plan and file written comments.

(iii) Monitor and evaluate implementation of the infrastructure improvements plan.

(iv) Every year file reports with respect to the progress of the infrastructure improvements plan and the collection and expenditures of development fees and report to the municipality any perceived inequities in implementing the plan or imposing the development fee.

1 (v) Advise the municipality of the need to update or revise the
2 land use assumptions, infrastructure improvements plan and development
3 fee.

4 (c) The municipality shall make available to the advisory committee
5 any professional reports with respect to developing and implementing the
6 infrastructure improvements plan.

7 (d) The municipality shall adopt procedural rules for the advisory
8 committee to follow in carrying out the committee's duties.

9 2. In lieu of creating an advisory committee pursuant to paragraph
10 1 of this subsection, provide for a biennial certified audit of the
11 municipality's land use assumptions, infrastructure improvements plan and
12 development fees. An audit pursuant to this paragraph shall be conducted
13 by one or more qualified professionals who are not employees or officials
14 of the municipality and who did not prepare the infrastructure
15 improvements plan. The audit shall review the progress of the
16 infrastructure improvements plan, including the collection and
17 expenditures of development fees for each project in the plan, and
18 evaluate any inequities in implementing the plan or imposing the
19 development fee. The municipality shall post the findings of the audit on
20 the municipality's website or the website of an association of cities and
21 towns if the municipality does not have a website and shall conduct a
22 public hearing on the audit within sixty days of the release of the audit
23 to the public.

24 ~~H.~~ I. On written request, an owner of real property for which a
25 development fee has been paid after July 31, 2014 is entitled to a refund
26 of a development fee or any part of a development fee if:

27 1. Pursuant to subsection B, paragraph 6 of this section, existing
28 facilities are available and service is not provided.

29 2. The municipality has, after collecting the fee to construct a
30 facility when service is not available, failed to complete construction
31 within the time period identified in the infrastructure improvements plan,
32 but in no event later than the time period specified in paragraph 3 of
33 this subsection.

34 3. For a development fee other than a development fee for water or
35 wastewater facilities, any part of the development fee is not spent as
36 authorized by this section within ten years after the fee has been paid
37 or, for a development fee for water or wastewater facilities, any part of
38 the development fee is not spent as authorized by this section within
39 fifteen years after the fee has been paid.

40 ~~I.~~ J. If the development fee was collected for the construction of
41 all or a portion of a specific item of infrastructure, and on completion
42 of the infrastructure the municipality determines that the actual cost of
43 construction was less than the forecasted cost of construction on which
44 the development fee was based and the difference between the actual and
45 estimated cost is greater than ten ~~per-cent~~ PERCENT, the current owner may

1 receive a refund of the portion of the development fee equal to the
2 difference between the development fee paid and the development fee that
3 would have been due if the development fee had been calculated at the
4 actual construction cost.

5 ~~J.~~ K. A refund shall include any interest earned by the
6 municipality from the date of collection to the date of refund on the
7 amount of the refunded fee. All refunds shall be made to the record owner
8 of the property at the time the refund is paid. If the development fee is
9 paid by a governmental entity, the refund shall be paid to the
10 governmental entity.

11 ~~K.~~ L. A development fee that was adopted before January 1, 2012
12 may continue to be assessed only to the extent that it will be used to
13 provide a necessary public service for which development fees can be
14 assessed pursuant to this section and shall be replaced by a development
15 fee imposed under this section on or before August 1, 2014. Any
16 municipality having a development fee that has not been replaced under
17 this section on or before August 1, 2014 shall not collect development
18 fees until the development fee has been replaced with a fee that complies
19 with this section. Any development fee monies collected before January 1,
20 2012 remaining in a development fee account:

21 1. Shall be used towards the same category of necessary public
22 services as authorized by this section.

23 2. If development fees were collected for a purpose not authorized
24 by this section, shall be used for the purpose for which they were
25 collected on or before January 1, 2020, and after which, if not spent,
26 shall be distributed equally among the categories of necessary public
27 services authorized by this section.

28 ~~L.~~ M. A moratorium shall not be placed on development for the sole
29 purpose of awaiting completion of all or any part of the process necessary
30 to develop, adopt or update development fees.

31 ~~M.~~ N. In any judicial action interpreting this section, all powers
32 conferred on municipal governments in this section shall be narrowly
33 construed to ensure that development fees are not used to impose on new
34 residents a burden all taxpayers of a municipality should bear equally.

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

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

40 2. The balance of each fund maintained for each type of development
41 fee assessed as of the beginning and end of the fiscal year.

42 3. The amount of interest or other earnings on the monies in each
43 fund as of the end of the fiscal year.

1 4. The amount of development fee monies used to repay:

2 (a) Bonds issued by the municipality to pay the cost of a capital
3 improvement project that is the subject of a development fee assessment,
4 including the amount needed to repay the debt service obligations on each
5 facility for which development fees have been identified as the source of
6 funding and the time frames in which the debt service will be repaid.

7 (b) Monies advanced by the municipality from funds other than the
8 funds established for development fees in order to pay the cost of a
9 capital improvement project that is the subject of a development fee
10 assessment, the total amount advanced by the municipality for each
11 facility, the source of the monies advanced and the terms under which the
12 monies will be repaid to the municipality.

13 5. The amount of development fee monies spent on each capital
14 improvement project that is the subject of a development fee assessment
15 and the physical location of each capital improvement project.

16 6. The amount of development fee monies spent for each purpose
17 other than a capital improvement project that is the subject of a
18 development fee assessment.

19 ~~P.~~ P. Within ninety days following the end of each fiscal year,
20 each municipality shall submit a copy of the annual report to the city
21 clerk and post the report on the municipality's website or the website of
22 an association of cities and towns if the municipality does not have a
23 website. Copies shall be made available to the public on request. The
24 annual report may contain financial information that has not been audited.

25 ~~P.~~ Q. A municipality that fails to file the report and post the
26 report on the municipality's website or the website of an association of
27 cities and towns if the municipality does not have a website as required
28 by this section shall not collect development fees until the report is
29 filed and posted.

30 ~~R.~~ R. Any action to collect a development fee shall be commenced
31 within two years after the obligation to pay the fee accrues.

32 ~~R.~~ S. A municipality may continue to assess a development fee
33 adopted before January 1, 2012 for any facility that was financed before
34 June 1, 2011 if:

35 1. Development fees were pledged to repay debt service obligations
36 related to the construction of the facility.

37 2. After August 1, 2014, any development fees collected under this
38 subsection are used solely for the payment of principal and interest on
39 the portion of the bonds, notes or other debt service obligations issued
40 before June 1, 2011 to finance construction of the facility.

41 ~~S.~~ T. Through August 1, 2014, a development fee adopted before
42 January 1, 2012 may be used to finance construction of a facility and may
43 be pledged to repay debt service obligations if:

1 1. The facility that is being financed is a facility that is
2 described under subsection ~~†~~ V, paragraph 7, subdivisions (a) through ~~(g)~~
3 (e) of this section.

4 2. The facility was included in an infrastructure improvements plan
5 adopted before June 1, 2011.

6 3. The development fees are used for the payment of principal and
7 interest on the portion of the bonds, notes or other debt service
8 obligations issued to finance construction of the necessary public
9 services or facility expansions identified in the infrastructure
10 ~~improvement~~ IMPROVEMENTS plan.

11 U. A MUNICIPALITY MAY ASSESS DEVELOPMENT FEES ON THE DEVELOPMENT OF
12 ACCESSORY DWELLING UNITS, AS FOLLOWS:

13 1. FOR WATER AND WASTEWATER, THE WATER AND WASTEWATER DEVELOPMENT
14 FEES ASSESSED FOR SUCH ACCESSORY DWELLING UNIT SHALL NOT EXCEED THE
15 INCREMENTAL INCREASE IN DEMAND CAUSED BY THE DEVELOPMENT OF EACH ACCESSORY
16 DWELLING UNIT WHETHER SERVED BY THE SAME WATER METER AS THE PRIMARY
17 DWELLING OR BY A SEPARATE WATER METER.

18 2. FOR DEVELOPMENT FEES ASSESSED ON THE DEVELOPMENT OF AN ACCESSORY
19 DWELLING UNIT FOR ALL NECESSARY PUBLIC SERVICES OTHER THAN WATER AND
20 WASTEWATER, THE DEVELOPMENT FEES ASSESSED FOR SUCH ACCESSORY DWELLING UNIT
21 SHALL NOT EXCEED THE LESSER OF TWENTY-FIVE PERCENT OF THE TOTAL
22 DEVELOPMENT FEES OR THE PROPORTIONATE SHARE FOR THOSE SAME NECESSARY
23 PUBLIC SERVICES APPLICABLE TO A SINGLE-FAMILY HOME.

24 ~~†~~ V. For the purposes of this section:

25 1. "Dedication" means the actual conveyance date or the date an
26 improvement, facility or real or personal property is placed into service,
27 whichever occurs first.

28 2. "Development" means:

29 (a) The subdivision of land.

30 (b) The construction, reconstruction, conversion, structural
31 alteration, relocation or enlargement of any structure that adds or
32 increases the number of service units.

33 (c) Any use or extension of the use of land that increases the
34 number of service units.

35 3. "Facility expansion" means the expansion of the capacity of an
36 existing facility that serves the same function as an otherwise new
37 necessary public service in order that the existing facility may serve new
38 development. Facility expansion does not include the repair, maintenance,
39 modernization or expansion of an existing facility to better serve
40 existing development.

41 4. "Final approval" means:

42 (a) For a nonresidential or multifamily development, the approval
43 of a site plan or, if no site plan is submitted for the development, the
44 approval of a final subdivision plat.

1 (b) For a single family residential development, the approval of a
2 final subdivision plat.

3 5. "Infrastructure improvements plan" means a written plan that
4 identifies each necessary public service or facility expansion that is
5 proposed to be the subject of a development fee and otherwise complies
6 with the requirements of this section, and may be the municipality's
7 capital improvements plan.

8 6. "Land use assumptions" means projections of changes in land
9 uses, densities, intensities and population for a specified service area
10 over a period of at least ten years and pursuant to the general plan of
11 the municipality.

12 7. "Necessary public service" means any of the following facilities
13 that have a life expectancy of three or more years and that are owned and
14 operated by or on behalf of the municipality:

15 (a) Water facilities, including the supply, transportation,
16 treatment, purification and distribution of water, and any appurtenances
17 for those facilities.

18 (b) Wastewater facilities, including collection, interception,
19 transportation, treatment and disposal of wastewater, and any
20 appurtenances for those facilities.

21 (c) ~~Storm water~~ STORMWATER, drainage and flood control facilities,
22 including any appurtenances for those facilities.

23 (d) Library facilities of up to ten thousand square feet that
24 provide a direct benefit to development, not including equipment, vehicles
25 or appurtenances.

26 (e) Street facilities located in the service area, including
27 arterial or collector streets or roads that have been designated on an
28 officially adopted plan of the municipality, traffic signals and
29 rights-of-way and improvements thereon.

30 (f) Fire and police facilities, including all appurtenances,
31 equipment and vehicles. Fire and police facilities do not include a
32 facility or portion of a facility that is used to replace services that
33 were once provided elsewhere in the municipality, vehicles and equipment
34 used to provide administrative services, helicopters or airplanes or a
35 facility that is used for training firefighters or officers from more than
36 one station or substation.

37 (g) Neighborhood parks and recreational facilities on real property
38 up to thirty acres in area, or parks and recreational facilities larger
39 than thirty acres if the facilities provide a direct benefit to the
40 development. Park and recreational facilities do not include vehicles,
41 equipment or that portion of any facility that is used for amusement
42 parks, aquariums, aquatic centers, auditoriums, arenas, arts and cultural
43 facilities, bandstand and orchestra facilities, bathhouses, boathouses,
44 clubhouses, community centers greater than three thousand square feet in
45 floor area, environmental education centers, equestrian facilities, golf

1 course facilities, greenhouses, lakes, museums, theme parks, water
2 reclamation or riparian areas, wetlands, zoo facilities or similar
3 recreational facilities, but may include swimming pools.

4 (h) Any facility that was financed and that meets all of the
5 requirements prescribed in subsection ~~R~~ S of this section.

6 8. "Qualified professional" means a professional engineer,
7 surveyor, financial analyst or planner providing services within the scope
8 of the person's license, education or experience.

9 9. "Service area":

10 (a) Means any specified area within the boundaries of a
11 municipality in which development will be served by necessary public
12 services or facility expansions and within which a substantial nexus
13 exists between the necessary public services or facility expansions and
14 the development being served as prescribed in the infrastructure
15 improvements plan.

16 (b) INCLUDES THE SERVICE TERRITORY OF WATER OR WASTEWATER
17 FACILITIES, WHETHER INSIDE OR OUTSIDE OF THE BOUNDARIES OF THE
18 MUNICIPALITY, IF THE MUNICIPALITY PROVIDES WATER AND WASTEWATER SERVICES.

19 10. "Service unit" means a standardized measure of consumption,
20 use, generation or discharge attributable to an individual unit of
21 development calculated pursuant to generally accepted engineering or
22 planning standards for a particular category of necessary public services
23 or facility expansions.

24 Sec. 2. Section 9-499.15, Arizona Revised Statutes, is amended to
25 read:

26 9-499.15. Proposed new or increased municipal taxes and fees;
27 notification; exceptions

28 A. A municipality may not levy or assess any new taxes or fees or
29 increase existing taxes or fees pursuant to statute on a business without
30 complying with this section.

31 B. A municipality that proposes to levy or assess a tax or fee
32 shall:

33 1. Prepare a schedule of the proposed new or increased tax or fee
34 that includes the amount of the tax or fee and a written report or data
35 that supports the new or increased tax or fee. A copy of the report or
36 data shall be filed in the office of the clerk of the municipality.

37 2. If the proposed tax or fee is a new charge, provide written
38 notice of the proposed charge, the schedule of the proposed new charge and
39 the written report or data that supports the new charge on the home page
40 of the municipality's website at least sixty days before the date the
41 proposed new tax or fee is approved or rejected by the governing body of
42 the municipality.

43 3. If the municipality proposes to increase the rate of an existing
44 tax or fee on a business, provide written notice of the proposed increase,
45 the schedule of the proposed increased tax or fee and the written report

1 or data that supports the proposed increased tax or fee on the home page
2 of the municipality's website at least sixty days before the date the
3 proposed new rate is approved or rejected by the governing body of the
4 municipality.

5 4. Prepare a notice of intent to establish or increase taxes,
6 assessments or fees, including assessments levied pursuant to section
7 48-572, subsection B, paragraph 2. The notice of intent shall include the
8 date, time and place of the meeting of the governing body of the
9 municipality in which the proposed new or increased tax or fee will be
10 considered and a statement that a schedule of the proposed new or
11 increased tax or fee that includes the amount of the tax or fee and a
12 written report or data that supports the new or increased tax or fee is
13 available on the municipality's website. The notice of intent shall be
14 posted on the municipality's website at least fifteen days before the date
15 the proposed new or increased tax or fee will be approved or rejected by
16 the governing body of the municipality. If the municipality uses social
17 media or other electronic communication tools, the notice of intent shall
18 be distributed through the municipality's social media accounts or other
19 electronic communication tools.

20 C. At least seventy-five days before the date a municipality
21 proposes an ordinance to adopt or repeal a model or local option in the
22 model city tax code, the municipality shall request from the department of
23 revenue a list of all taxpayers within the municipality in the affected
24 tax classification. At least sixty days before the date the proposed
25 ordinance is approved or rejected by the governing body of the
26 municipality, the municipality shall notify by mail all taxpayers in the
27 affected tax classification of the proposed ordinance.

28 D. Subsection C of this section does not apply to ordinances that
29 do either of the following:

30 1. Impose a use tax or a model or local option to exempt a city or
31 town from use tax.

32 2. Impose a two-tiered tax rate structure for retail sales.

33 E. All departments, boards or other subdivisions of a municipality
34 that are authorized to establish or modify taxes or fees shall follow the
35 notice requirements prescribed in subsection B of this section before the
36 date of the entity's consideration of the new or increased tax or fee.

37 F. Technological issues that either prevent the posting of the
38 notice on the municipality's website or distribution of the notice through
39 social media or other electronic communication tools do not preclude the
40 governing body of the municipality from approving or rejecting the new or
41 increased tax or fee at the meeting provided on the notice of intent.

42 G. A municipality shall demonstrate that the taxes or fees are
43 imposed pursuant to statute.

44 H. Subsections A and B of this section do not apply to:

45 1. Any fee adopted pursuant to section 9-463.05.

1 2. Water and wastewater rates, FEES or rate components THAT ARE
2 ADOPTED PURSUANT TO SECTION 9-511.01.

3 3. Fees for registration-based classes, programs or activities
4 provided by the municipality.

5 4. Court fees established pursuant to state law.

6 5. Fees or charges established pursuant to federal law for public
7 housing or other federally funded programs.

8 6. Other fees whose amounts are set by state or federal law.

9 I. If information is made available relating to the fees provided
10 in subsection H of this section, that information shall be posted on the
11 municipality's website and, if the municipality uses social media or other
12 electronic communication tools, distributed through social media or other
13 electronic communication tools.

14 J. In addition to any other limitation that may be imposed by law,
15 a municipality shall not levy or impose an assessment, fee or tax on
16 hospital revenues, discharges, beds or services for the purpose of
17 receiving services or payments pursuant to title 36, chapter 29.

18 Sec. 3. Section 9-511.01, Arizona Revised Statutes, is amended to
19 read:

20 9-511.01. Water and wastewater business; rates; procedures;
21 responsibility for payments

22 A. A municipality engaging in a domestic water or wastewater
23 business shall not increase any water or wastewater rate or rate
24 component, fee or service charge without complying with the following:

25 1. Prepare a written report or supply data supporting the increased
26 rate or rate component, fee or service charge. The report or supporting
27 data shall include cash flow projections that indicate all anticipated
28 revenues from residential and nonresidential customers and the overall
29 expenses for providing water or wastewater service. A copy of the report
30 and cash flow projections shall be made available to the public by filing
31 a copy in the office of the clerk of the municipality governing board and
32 posting the report and cash flow projections on the municipality's website
33 or the website of an association of cities and towns if the municipality
34 does not have a website at least thirty days before the public hearing
35 described in paragraph 2 of this subsection.

36 2. Adopt a notice of intention by motion at a regular council
37 meeting to increase water or wastewater rates or rate components, fees or
38 service charges and set a date for a public hearing on the proposed
39 increase that shall be held at least sixty days after adoption of the
40 notice of intention. A copy of the notice of intention showing the date,
41 time and place of the hearing shall be published one time in a newspaper
42 of general circulation within the boundaries of the municipality not less
43 than twenty days before the public hearing date.

1 3. FOR THE PORTION OF A WATER OR WASTEWATER FEE THAT IS ADOPTED OR
2 INCREASED AFTER DECEMBER 31, 2026 TO FUND CAPITAL IMPROVEMENTS TO WATER OR
3 WASTEWATER FACILITIES THAT SERVE NEW GROWTH, ADOPT GROWTH-RELATED FEES AS
4 PRESCRIBED BY SECTION 9-463.05.

5 B. After holding the public hearing, the governing body may adopt,
6 by ordinance or resolution, the proposed rate or rate component, fee or
7 service charge increase or any lesser increase.

8 C. Notwithstanding section 19-142, subsection B, the increased rate
9 or rate component, fee or service charge shall become effective thirty
10 days after adoption of the ordinance or resolution.

11 D. Any proposed water or wastewater rate or rate component, fee or
12 service charge adjustment or increase shall be just and reasonable.

13 E. Rates and charges demanded or received by municipalities for
14 water and wastewater service shall be just and reasonable. Every unjust
15 or unreasonable rate or charge demanded or received by a municipality is
16 prohibited and unlawful.

17 F. A municipality may not assess or collect a fee on new water or
18 wastewater service connections at the time of the establishment of service
19 to those connections for the purpose of recovering the municipality's
20 costs of acquiring, whether by purchase or by eminent domain, the utility
21 plant, facilities, system or other property of a public service
22 corporation or another municipality engaged in the business of providing
23 water or wastewater service. This subsection does not apply to water or
24 wastewater fees adopted before January 1, 2016 or to water or wastewater
25 fees included in a notice of intent to adopt or increase water or
26 wastewater rates and fees adopted before January 1, 2016.

27 G. For residential property of four or fewer units, a municipality
28 shall not require payment of unpaid water and wastewater service rates and
29 charges by anyone other than the person who the municipality has
30 contracted with to provide the service, who physically resides or resided
31 at the property and who receives or received the service. A property
32 owner, an immediate family member of the person who does not reside at the
33 property or any other entity, at its sole discretion, may contract for
34 water and wastewater service with a municipality and shall provide
35 payment.

36 H. For residential property of four or fewer units, a municipality
37 shall not refuse service within the municipality's service area for the
38 unpaid water and wastewater rates and charges to anyone other than the
39 person who physically resided and received the service at the property. A
40 property owner, at the owner's sole discretion, may contract for water and
41 wastewater service with a municipality and shall provide payment for that
42 service.

H.B. 2946

APPROVED BY THE GOVERNOR JUNE 4, 2026.

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