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June 4, 2007

Mayor Joe Donaldson &
Flagstaff City Council
Flagstaff City Hall
211 W. Aspen
Flagstaff, AZ 86001

Dear Mayor Donaldson & City Council Members:

On behalf of the Flagstaff Chamber of Commerce, thank you for sharing the TischlerBise report on the City's proposed development fees with our committees and Board of Directors. City staff including Michael Kerski and Kimberly Sharp made presentations to our Community & Economic Development Committee, the Government Affairs Committee and the full Board of Directors in March and April. Thank you for their participation as well.

Subsequently, these bodies conducted extensive research and debate in discussing the proposal. We have also conducted discussions with other Flagstaff organizations debating the matter, including the Greater Flagstaff Economic Council, the Northern Arizona Association of REALTORS and the Northern Arizona Building Association.

After considerable reflection, the Board of Directors of the Chamber respectfully requests that, should the City Council decide that development fees are in the best interest of the Citizens of this town, then the City Council should bring this matter to the voters at large and allow the Citizens to make the ultimate decision.

The development fees being proposed for Flagstaff may well be the most important decision facing the future of this community. They could have an extremely negative effect on the community, partly because of unintended consequences resulting from imposition of the fee. Given the enormous repercussions this decision could have, we believe the community should be educated about development fees, given a chance to discuss and debate the merits and possible problems, and ultimately have the decision made by our voting electorate at the polls.

Your presentation on development fees and our research have raised the following questions:

1. Has the Council considered how development fees could ultimately raise the **Cost of Living** in Flagstaff? This would affect everyone in town, not just new residents and businesses. Our concern is that increased fees for building homes will keep the housing market extremely high, and that increased fees on commercial development will drive development to other communities. For those that remain, the result will be higher leases and rents to tenants who will then pass on the increase to the present consumers.
2. The Council has repeatedly stated that **Affordable Workforce Housing** is important to the city. However, has the Council considered how development

fees might eliminate chances of creating more workforce housing in Flagstaff? Ironically, the fee might have the unintended consequence of encouraging greater second home ownership and luxury home production. Developers who actually build residential housing may likely choose not to build more affordable homes because that market cannot easily afford the additional fees that will be passed on to them. Builders will build the kind of product that can afford the fee. At the very least, the implementation of development fees could push new homes out of the affordable range.

3. Has the Council considered the effect these fees would have on existing **Small Businesses** in Flagstaff? The proposed development fee on commercial construction is intended to have new development pay its own way for impact upon various City services. What is the impact going to be on existing businesses, specifically small business and its ability to grow and expand? Will Flagstaff be able to retain existing businesses after implementation of the development fee or will businesses seek to locate in markets with lower occupancy costs? The large, national chains may be the only companies that can afford the fee. If the small business tenant needs or wants to expand, he would have to pay the higher lease rate for the new space (or expanded space if a stand alone building) or else just stay where he is in the same size space he currently occupies. But what happens when his lease matures? The landlord will adjust the rent to the higher current market lease rate and then the small business man will have to pay the higher rent, close down or else vacate the space and move to another town with lower rents.
4. Will the benefits for new businesses (be they commercial or industrial) looking to locate in Flagstaff outweigh the higher costs of doing business here? We are concerned that the fees hinder our community's ability to respond to the **Competitive Marketplace** which exists among Arizona's cities vying for the highest levels of job growth and the broadest selection of retail offerings. When a large business is considering relocating, how often does Flagstaff not even make it through the first vetting process because of the high cost of doing business here? We believe the fee will eliminate Flagstaff from contention before we even know we were a target of interest.
5. Can adjustments be made to the **Current Budget** to offset the need for development fees? We have seen several capital projects in the last few years that were not urgently needed. Meanwhile, we are being told that unless development fees are enacted, operations and level of service will suffer. The Council should first consider re-prioritizing capital projects and perhaps diverting funds from those that are not truly necessary to help pay for necessary operations and services.
6. Lastly, **are development fees necessary?** Flagstaff is not the Phoenix metro area. At a growth rate of roughly 2%, could not the current system of permit fees and exactions accomplish what the city needs? Our principal concern is that the development fee will not produce the promised infrastructure when development needs it because the rate at which we grow is not a sufficient source of revenue to produce the improvements on time. Rather, a growth rate of roughly 2% strongly suggests to us that growth in Flagstaff is under control, that exactions are functioning adequately, but that development fees will negatively impact our meager growth rate, perhaps unintentionally eliminating that 2% growth rate altogether.

The Council should seriously investigate these concerns in your debate on the issue. It is our position that before the Council should embark upon a development fee that will increase the cost of living; shift development to second homes; make workforce housing even less obtainable; detrimentally impact small business expansion; displace Flagstaff in the competition for new business growth; and reverse our meager growth rate; that the voters should be educated and decide the issue at the polling place. Thank you for your time.

Respectfully yours,



Julie M. Pastrick
President/CEO