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Staff Report

SS ITEM 2

To: Lemoore City Council
From: Lauren Apone, Administrative Analyst *LA*
Date: November 14, 2013
Subject: Impact Fee Discussion

Discussion:

At the November 5, 2013 Council Meeting, Council voiced support for a sales tax sharing arrangement/impact fee deferral for businesses as a way of offsetting impact fees. This would give some businesses relief from impact fees as well as make sure we have adequate balances in the impact fee accounts to upgrade our City's infrastructure when needed.

This proposal would allow a portion of impact fees to be deferred for a period of time (i.e. five years) and then gather actual data for sales tax revenue generated from the business and give the business a credit for a certain percentage (i.e. 50%) of the sales tax revenue against the impact fees that were deferred to year five. Since the portion of the impact fees credited to the customer is real money the General Fund has received in sales tax revenue, it can be transferred from the General Fund to the impact fee accounts to make them whole.

Staff has created a few **hypothetical** examples of businesses that might have developed in the City of Lemoore, paid impact fees, and generated sales tax to the City's General Fund. There are very strict rules regarding the confidentiality of sales tax data and for this reason, I cannot give real examples. However, the following hypotheticals represent the range of actual data I have seen in my research.

| Business | Total Impact Fees Paid | Average Annual Sales Tax to City |
|----------|------------------------|----------------------------------|
| A | \$25,000 | \$10,000 |
| B | \$175,000 | \$15,000 |
| C | \$250,000 | \$7,500 |
| D | \$15,000 | \$7,500 |
| E | \$75,000 | \$25,000 |

If the model was used that 50% of impact fees could be deferred using 50% of the sales tax revenue over 5 years, the following would be the impact fee reductions for these businesses:

| <u>Business</u> | <u>Total Impact Fee Reduction</u> | <u>Percentage Reduction</u> |
|-----------------|-----------------------------------|-----------------------------|
| A | \$12,500 | 50% |
| B | \$37,500 | 21% |
| C | \$18,750 | 8% |
| D | \$7,500 | 50% |
| E | \$37,500 | 50% |

If a similar model was used but the City collected the remaining impact fees after 3 years instead of 5, the results are as follows:

| <u>Business</u> | <u>Total Impact Fee Reduction</u> | <u>Percentage Reduction</u> |
|-----------------|-----------------------------------|-----------------------------|
| A | \$13,000 | 50% |
| B | \$22,500 | 13% |
| C | \$11,250 | 5% |
| D | \$7,500 | 50% |
| E | \$37,500 | 50% |

As you can see, some types of businesses benefit from this arrangement more than others. Businesses with high impact fees (mostly because of additional traffic generated) and low sales tax, such as Business C would see a marginal reduction. Meanwhile, businesses with high sales tax and/or low impact fees like Businesses A, D, and E would see the maximum reduction of 50% of their impact fees. The change from 5 to 3 years doesn't affect these latter businesses at all, but does affect the former.

In addition, Council can choose to charge interest on the impact fees that are deferred. The City can only charge interest up to the percentage that the impact fee accounts are earning, which is 0.24%

I am looking for direction from Council on the following items:

- Length of time for impact fee deferral (ex. 3 or 5 years)
- Maximum percentage reduction in impact fees. The above scenarios assume 50%. I would not recommend anything higher than this in case the business goes bankrupt in the deferral time period. However, Council could choose a lower percentage.
- Percentage of sales tax credited. (I would recommend a 50/50 split as in the above scenarios to allow the General Fund to see some additional revenue from these businesses)
- Do we want to charge interest on deferred impact fees?
- In the meantime, does Council wish to index the existing impact fees to keep up with inflation? The above program does not change the actual impact fees, just institutes a mechanism for businesses to get some relief from paying them. Impact fees are still being collected on residential and commercial development. Continuing to index the impact fees by the Construction Cost Index will ensure that we are not losing money on residential and commercial construction while this new program is being implemented. If desired, I can bring both items back to Council at the same meeting.

If Council reaches a consensus on the above items, staff will work on an agreement that will detail this program and bring it back before Council for approval.

Budget Impact:

The General Fund would potentially see a decrease in sales tax revenue as these funds are transferred to the impact fee accounts.

Recommendation:

For discussion only.