

Mayor
William Siegel
Mayor Pro Tem
Lois Wynne
Council Members
John Gordon
Eddie Neal
Willard Rodarmel



**Office of the
City Manager**

119 Fox Street
Lemoore • CA 93245
Phone • (559) 924-6700
FAX • (559) 924-9003

Staff Report

SS ITEM 2

To: Lemoore City Council
From: JP Prichard, Administrative Analyst 
Date: September 25, 2013
Subject: Fee History and Philosophy

Discussion:

During the spring of each year, the Council is provided the opportunity to review the Master User Fees and Development Impact Fees that the City has in place. During this time, staff will typically recommend indexing the fees by some type of cost index to ensure that the fees continue to be sufficient for the purpose they are designed.

It has been several years since these fees were initiated at the City, and there have been multiple changes to the makeup of the Council, as well as to the adopted goals and objectives of the City. Specifically, the Council has adopted an objective to "Increase general fund revenue by earning a reputation for being a 'business friendly' City... [by] ... working to reduce the City fees imposed on new business developments". It is likely that the Council may wish to revisit the use of these fees prior to staff bringing forth any recommendation regarding inflationary indexing.

Fees categorized as Master User Fees and Impact Fees differ significantly in their purpose, design, and effect on the community; therefore, they will be reviewed separately in this report.

Master User Fees - History and Philosophy

Master User Fees, or service fees, are payments made by an individual for a service that primarily benefits the individual. Public agencies impose a user fee for a government service when 1) the individual's decision to use the service is voluntary, and 2) the fee charged to the individual user is reasonably related to the level of service rendered and the cost of providing that service.

Originally instituted in the City of Lemoore in 1992 through a study by Management Services Institute, these fees have been modified over the years as levels and types of services have changed. The last comprehensive update and adoption of the City's Master User Fees was done through a study by MuniFinancial in 2004. This report has served as the basis for all inflationary indexing, as well as minor fee modifications, for the last ten years. (A current list of our Master User Fees may be found on the City website, if you wish to review them.)

The main challenge with relying on a ten-year-old report is that, while many of the services remain unchanged, its calculation methods rely on outdated information. For example, a typical fee will not only include the cost of the staff time directly tied to providing the service, but also include administrative overhead and other indirect costs (such as a percentage of Finance or Fleet costs). It's easy to see how minor changes in one department could affect the fees collected by another. As operations throughout the City change over time, the calculations grow stale.

The City currently relies on the U.S. Bureau of Labor Statistics for its Government Employment Cost Index (ECI) as the inflationary model to follow for yearly indexing. This Index measures the statistical average change in compensation for State and Local Government workers year over year. You can see from the attached history of the ECI from 2004 forward, while no single year saw average increases higher than 4.1%, the cumulative effect during that ten year period was nearly 30%. (This should not surprise Council; both of our police units just received compensation increases of 4.4% for two year contracts, or roughly 2.2% per year.)

Since the last time this item was brought before the Council, a review of City employee compensation was produced for the GASE employee unit (those that would be providing most of the services listed in the Master User Fee Schedule). While not comprehensive, it did address salary increases, CalPERS contribution increases, and increase to City-paid health insurance premiums. The analysis demonstrated that during the period of 2004 through 2013, GASE employee total compensation increased by 48.72%, as compared to a statewide increase of 29.53% for local government employees. Please see the attached chart.

Development Impact Fees – History and Philosophy

Development Impact Fees are fees that are collected exclusively from new development specifically to support the building of new infrastructure created by the higher demands caused by the new development.

Originally introduced into the City in 1992, these fees have been modified multiple times, including comprehensively in 2005. Since 2005, the City has implemented a Westside Traffic Impact Fee, and yearly updated these fees for inflation. Use of Development Impact Fees was previously supported by an adopted Council objective of making sure that “new development pays for itself”. However, the current Council has abandoned this objective with the February 2013 adoption of the new City Goals and Objectives.

The City currently relies on the California Construction Cost Index (CCCI) as the inflationary model to follow for yearly indexing. This Index measures the statistical average change in construction costs throughout the State year over year. You can see from the attached history of the CCCI from 2007 forward that this is a rather volatile index. While the Council once chose to ‘smooth’ the effects of the inflationary spike in 2009 by spreading the effects over two years, the cumulative effects have been applied all the way until 2012, when the Council chose to not apply the indexing.

During the September 3, 2013 Council meeting, the Council requested further information on the effects of a 20% reduction in impact fees for businesses located in regional commercial, neighborhood commercial, professional office, and industrial

zones. Please see the attached document that will be discussed in greater detail at the Council meeting.

After reviewing what some other cities have done to incentivize development by reducing impact fees, the following programs came to light:

- Total waiver for a limited time period of all sewer/water impact fees. This successful program during a time of stagnant growth in Clovis helped at least two businesses (call center/hospital expansion) move forward immediately rather than delay or possibly prevented them from locating in Fresno.
- Marginal reduction in all residential impact fees in Clovis. The tangible benefits of this program are still unknown.
- Significant reduction of impact fees (approx. 70%) for infill areas within Clovis. Infill is much more strictly defined than Lemoore currently does, and creatively maintains the nexus to its original study.
- Hanford has a 30% reduction in select impact fees for businesses, as well as a 3-year deferral program for impact fees with a 3% interest rate. Hanford also offers business loans for new job creators.

Budget Impact:

None at this time.

Recommendation:

Staff will work from Council consensus to bring fees items forward in the future; there is no recommendation at this time.