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## Staff Report

SS ITEM 4

**To:** Lemoore City Council  
**From:** JP Prichard, Administrative Analyst   
**Date:** August 28, 2013  
**Subject:** Impact Fees and Master User Fees - Fee History and Philosophy

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### 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.)

Staff is seeking guidance on the continuation of the Master User Fees: Is the Council comfortable with the ECI being applied as an inflationary index this year? Would the Council like to see a comprehensive update to the ten-year-old report? Are there any questions or concerns staff can answer regarding these fees? As there are many fees specifically related to new development, would the Council like these addressed in a different manner?

### ***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.

Staff is seeking guidance on the continuation of the Development Impact Fees: Does the Council want to continue to have Development Impact Fees in Lemoore? Should there be some type of program instituted to allow these fees to be waived, suspended, offset, or otherwise modified for those businesses that make a measurable economic difference to either the City economy or the City's General Fund? Is the Council

comfortable with continuing to use the CCCI as an inflationary index this year? Are there any questions or concerns staff can answer regarding these fees?

**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.