ACCEPT PUBLIC FACILITY FEE ANNUAL REPORTS FOR FISCAL YEAR 2016-17

RECOMMENDATION

It is recommended that the City Council accept by motion the Public Facility Fee Program Annual Reports for Fiscal Year 2016-17 (Attachment A) to comply with State reporting requirements.

Summary

Under State law, cities are required to make available to the public an annual report on Public Facilities Fees (PFF). The fees are collected to finance public facilities, collected for specific purposes and intended to mitigate the impact of development. State law also prescribes the required elements of the report, outlines public notice requirements, and specifies that the City Council review the report. The City is required to publish the annual reports within 180 days of the last day of the fiscal year. The Fiscal Year FY 2016-17 Annual Report was filed with the City Clerk’s Office on December 29, 2017, and made available for public review.

The combined available PFF fund balances as of June 30, 2017, is $22,641,980 as provided in Attachment B. The City programs PFF funds in its five-year Capital Improvement Plan (CIP) for projects that meet the local infrastructure commitments. The available fund balances are insufficient to cover all infrastructure commitments due to the low level of collections, and future collections will be required.

DISCUSSION

Background

California Government Code Section 66006, known as the Mitigation Fee Act (“the Act”), requires the City make an Annual Report of fees collected to support City infrastructure publicly available. The Act spells out the fee information that must be provided in the Annual Report and specifies that the report is to be reviewed by the City Council at a regularly scheduled public meeting. As required by the Act, the annual reports are to be filed and made available to the public no later than 180 days following the last day of the fiscal year. The City is also required to review the information at the next regularly scheduled public meeting, not less than 15 days after the information is made public.

The Act provides that PFFs may be enacted and imposed on development projects. The City has found and determined that new development projects create the need for the construction, expansion or improvement of public facilities within the City and create new permanent financial obligations. The City imposes PFFs as new development projects are approved. In some jurisdictions, PFFs are known as Impact Fees or Development Impact Fees.
Utilization of a PFF program allows for the allocation of improvement costs across development projects. Absent a city-wide PFF program, improvement costs would not be apportioned, and the full cost of mitigation improvements would be borne by the first project that established the need for the improvement. Such an approach would be a barrier to development in some instances given the disproportionate costs to early development projects. These issues formed the basis of the City establishing its PFF program beginning with the 1990 General Plan and the establishment of the original fees in 1991. The 1990 General Plan established the growth patterns and policies, and the PFF program was established to collect impact fees to address facility impacts from those growth policies. The fees are collected to finance public facilities and collected for specific purposes.

Annual Report Requirements

The Mitigation Fee Act requires that each Annual Report contains the following information:

A. A brief description of the type of fee in the PFF fund.
B. The amount of the fee.
C. The beginning and ending balance of the fund in the year reported.
D. The amount of the fees collected and interest earned.
E. An identification of the public improvement on which fees were expended.
F. An identification of an approximate date by which the construction of future public improvements will commence, once sufficient funds have been accumulated (the City meets this requirement by including PFF funds in the CIP).
G. A description of each interfund transfer or loan made from the fund, the approximate date the loan will be repaid and the interest the account will receive.
H. Refunds made under the provisions of the Mitigation Fee Act.

The PFF report attached to this staff report (Attachment A) presents the required information for FY 2016-17. This report provides additional information (balance sheet and the previous years’ data) to be transparent and comprehensive.

Revenue

Attachment C summarizes the total PFF fee revenue received in fiscal years 2015-16 and 2016-17 included in this report, by fee type.

Total revenues received in FY 2016-17 for the eighteen fee categories was $6.4 million; a decrease of $4.8 million over the $11.2 million collected in FY 2015-16. The decrease is due to stabilization of the local economy that impacts development compared to the release of pent-up demand experienced in last year’s construction activity. Nearly all categories of impact revenues were down by more than 30% from FY 2015-16.

The largest fee types by source in FY 2016-17 were Wastewater Connection fees at $1.6 million and Street Improvements at $1.1 million.

Expenditures in FY 2016-17 totaled $1,471,163 as compared to $899,542 in FY 2015-16 (Attachment D). The increased spending is primarily due to 2009 Water Bond payments.
Selected Program Highlights

Street Improvement Program

The Street Improvements Impact Fee provides for traffic improvements necessary to accommodate increased traffic generated by new development.

In FY 2016-17, revenues into the Street Improvement Impact Fee Fund totaled $1.2 million, and expenditures totaled $281,534. In FY 2015-16 revenues totaled $3.3 million, and expenditures totaled $5,047. The ending fund balance at the end of FY 2016-17 was $18.5 million.

Through the end of FY 2016-17, the City had entered into five different Street Improvement Reimbursement Agreements with outstanding balances as of June 30, 2017, of $10,395,873 for future infrastructure projects. The Street Improvements Impact Fee section of this document contains the pertinent details.

Community Recreation Centers

The Community Recreation Center Impact Fee provides for the construction and expansion of community centers as required by new development.

This fund has an outstanding balance of interfund loans to the Street Improvement Fund and the General Capital Projects Fund. In FY 2010-11, in recognition of the fact that revenues were insufficient to develop a loan repayment schedule, the City posted an allowance for the interfund loans payable of $3,730,031. By the end of FY 2016-17, this interfund loan balance was $3,898,508. Repayment of these loans will occur when the development climate improves, and sufficient revenues are available. Annual revenues have averaged slightly more than $55,000 over the last five years.

Fire Stations

The Fire Station Impact Fee provides for new or expanded fire stations as driven by new development.

The Fire Impact Fee showed improvement in FY 2016-17 with total revenues of $121,327 compared to $301,497 in FY 2015-16 as the economy has started to improve. In FY 2016-17, total expenditures were $21,714. This fund has an outstanding balance of interfund loans to two different City funds: Street Improvement Fund and the Libraries Public Facility fund. In recognition of the fact that revenues were insufficient to develop a loan repayment schedule, the City posted an allowance for the interfund loans payable of $2,444,435 in 2010-11. By the end of FY 2016-17, this interfund loan balance was $2,556,389. Repayment of these loans will occur when the development climate improves, and sufficient revenues are available. Annual revenues have averaged approximately $150,000 over the last five years.

Library Facilities

The Libraries Facility Impact fee provides for new libraries as required by growth and new development.
In FY 2016-17 the fund had collections of $108,298 and capital project expenditures of $91,940. At the end of the 2016-17 fiscal year, the fund balance for this fund was $8,990,840. The fund balance was reduced by the posting of allowance for an uncollectible loan to the Fire Stations PFF fund (discussed above), in the amount of $1,966,886.

The CIP earmarks most of the fund balance to construct a new Northwest Branch Library.

**Police Station**

The Police Stations Impact fee provides for expansion of police stations as required by growth and new development.

The Police Impact Fee provided revenues of $97,383 in FY 2016-17 and expenditures of $13,456.

This fund has an outstanding balance of interfund loans to the Street Improvement Fund. In 2010-11 fiscal year, in recognition of the fact that revenues were insufficient to develop a loan repayment schedule, the City posted an allowance for the interfund loans payable of $1,186,437 in this fund. At the end of FY2016-17, the interfund loans and allowance had increased to $1,248,169 due to interest. Repayment of these loans will occur when the development climate improves, and sufficient revenues are available. Annual revenues have averaged slightly more than $120,000 over the last five years.

**Parklands**

The Parkland Impact fee provides for the acquisition of land and the development of regional and neighborhood parks.

In FY 2016-17 the fund had collections of $283,074 as compared to $746,092 in FY 2015-2016. There were no expenditures in FY 2016-17. The fund balance for this fund at June 30, 2017, was $6,705,920.

**Air Quality**

The Air Quality Impact Fee provides for the partial mitigation of adverse environmental effects and establishes a formalized process for air quality standards as growth and development require.

Air Quality Impact Fees declined in FY 2016-17 with total revenues of $164,813 as compared to $557,373 in FY 2015-16. In FY 2016-17, total expenditures were $19,280. At the end of FY 2016-17 fiscal year, the fund balance for this fund was $2,607,174.

The Central Parking District repaid an interfund loan of $1,040,086 to this fund in FY 2014-15.

**Deferred Impact Fees and Interfund Loans**

The “Supplemental Reports” section of the attached Annual Report contains information regarding deferred PFFs (accounts receivable balances) and interfund loans representing borrowing amongst City government funds. Per the City’s Administrative Guidelines for the PFF Program, the City has a
fee deferral program and the total fees deferred under this program as of June 30, 2017, were $1,866,498.

FINANCIAL SUMMARY

This report is an informational item only. There is no financial impact.

Attachment A - PFF Report for FY 2016-17
Attachment B - PFF Funds Available Fund Balances
Attachment C - Total Impact Fee Revenues
Attachment D - Total Impact Fee Expenditures