Your Revenue Options:
A Briefing on Rates, Fees, Special Assessments and Special Taxes

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Revenue Decisions in Challenging Economic Times

Brighter spotlight on the array of revenues available to public agencies
- Types of revenues utilized
- Level of cost recovery attained

More engaged or sophisticated public sector
- Target greater equity
- Ensure legal implementation
- Work within local sensitivities
Approaching an Expansive Review of Revenue Opportunities

*Move from simple to complex:*

- Improve practices, procedures, and policies that require nothing more than institutional change
- Examine opportunities from revenues the agency can control solely by approval of the local governing body
- Branch out to revenue opportunities that may have higher approval hurdles
Revenue Options

- Ensure accurate and uniform fee application across the agency
  - Staff is educated on current fees
  - Waivers and discounts are rare or non-existent
  - A single schedule of fees governs
  - Systems are routinely audited
Target full cost recovery:

- All direct and indirect costs are in the fee
- Discrete costs are passed through in the fee
- More variable or specific fees are applied
- Fees are regularly updated to reflect changes in costs or levels of service
- Cost recovery of discretionary services:
  - Services requested by the public
  - Activities to oversee and ensure compliance with agency codes and standards
- Approval threshold is by vote of the local governing body only
Revenue Options

- Analytical requirement:
  - Fee cannot exceed the estimated reasonable cost of service

- Policy consideration:
  - Should services be subsidized in whole or in part by the general revenues of the agency? Why?
Cost of Service & Recovery Decisions

- **Full Cost of Service ($)**
  - Amount of Subsidy from Other Agency Resources (%)
  - Revenue from Fee ($)

- **Revenue Option $**
  - Maximum Level of Targeted Cost Recovery (100%)
  - Achieved Level of Cost Recovery (%)
  - Minimum Level of Targeted Cost Recovery (0%)
Revenue Options

Trends:
- Increased use of “cost recovery” fee structures
- Modernization of service delivery reflected in fees
- Changing regulations reflected in fees
- Annual fee adjustments linked to cost indices
- Use of fees in more traditionally perceived “public benefit” services
Public Agency Keys for Success in Studying Fees:

- Enable a strong “gatekeeper” for project management while providing direct access to all participating departments
- Involve all stakeholders in agency-wide cost allocation/cost of service analysis
- Obtain a product for future in-house use to minimize external dependence
Public Agency Keys for Success in Studying Fees:

- Require and maintain quality agency-wide, active staff time-tracking data
- Encourage revenue/cost recovery goals set confidently by a strong, involved local governing body
Before imposing a new fee...

- The service or activity must actually be performed
- A point at which payment can be compelled must exist
Mitigation of infrastructure costs:
- Public facilities available and/or planned to serve growth in the service base (e.g., new development)
- Mitigation Fee Act (AB 1600, GC 66000 et seq.)
- Approval threshold is by vote of the local Board only
Key analytical requirements:
- Demonstrate relationship between growth and facilities
- Fee cannot exceed that proportionate share or incremental cost of capital facilities

Policy consideration:
- Do economic development goals merit subsidy by general agency resources?
Revenue Options

Trends:

- Identifying available capacity in existing facilities; use of revenues to offset debt outstanding or reinvest in facilities
- Deferral of fee payment later in the development process
- Greater sensitivity to economic development
- Primary funding source for utility enterprises (water, sewer, etc.)
- Prop 218 (Article XIIID)
- Approval threshold is by vote of the local Board with a 45-day public notice, providing the opportunity for written protests greater than 50% to reject changes to rates
Revenue Options

Complexity Scale (1 = Simple, 10 = Complex)

Analytical requirement:
- May not exceed the proportional cost to provide service to a utility user

Policy consideration:
- Fund needs based on annual requirements determined by a long-term financial management plan for the entire utility
Trends:

- Adequate cash reserves for changing needs: long-term system replacement, aging receivables, emergency, rate stabilization, etc.
- Water use efficiency versus across-the-board conservation
- Volume-based wastewater rates
Revenue Options

Complexity Scale (1 = Simple, 10 = Complex)

- Improved Practices and Procedures
- User and Regulatory Fees
- Impact and Capacity Fees
- Utility Rates
- Property-Related Fees and Charges
- Assessments and Special Taxes

Defined per Article XIIID

- "Fee" or "charge" means any levy other than an ad valorem tax, a special tax, or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.
Revenue Options

Requirements

- Revenues derived from the fee may not exceed the funds required to provide the property related service.

- These revenues can only be used for the purpose in which the fee was imposed.
Revenue Options

- No fee or charge may be imposed for a service unless it is actually used by, or immediately available to the owner of the property.
  - Make sure to impose a fee when immediately available

- No fee or charge may be imposed for general governmental services
What can we fund?

- Water, Sewer, Trash
- Flood Control
- Storm Drainage (NPDES)
### The Approval Process

- **Majority Protest** is required for *property-related* fees and charges.
- **Majority Vote or 2/3 Vote**

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**Property-Related Fees and Charges**

<table>
<thead>
<tr>
<th>Complexity Scale (1 = Simple, 10 = Complex)</th>
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<tbody>
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**Revenue Options**

- Improved Practices and Procedures
- User and Regulatory Fees
- Impact and Capacity Fees
- Utility Rates
- Property-Related Fees and Charges
- Assessments and Special Taxes

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**Complexity Scale**

- Simple (1)
- Complex (10)
Major differences between Assessments and Special Taxes

- Special Benefit vs. General Benefit
  - Use prepayment funds
Revenue Options

Major differences between Assessments and Special Taxes

- Treatment of Public Parcels
  - Pay attention to assessments on Public Parcels

- Type of Project
Examples of Assessments and Special Taxes

<table>
<thead>
<tr>
<th>MECHANISM</th>
<th>CAN FUND</th>
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<tbody>
<tr>
<td>1972 Act Landscaping and Lighting</td>
<td>Park maintenance, landscaping,</td>
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<tr>
<td></td>
<td>street lighting</td>
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<tr>
<td>1982 Act Benefit Assessment</td>
<td>Flood control / storm drainage,</td>
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<td></td>
<td>street lighting, street maintenance</td>
</tr>
<tr>
<td>1913 / 1915 Act Assessment District</td>
<td>Basic infrastructure; streets,</td>
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<td></td>
<td>sidewalks, utilities, etc.</td>
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<tr>
<td>Community Facilities District (“CFD,” Mello-Roos)</td>
<td>Services (police, fire, park, library, schools, etc.) and/or infrastructure</td>
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The Approval Process

- Majority Protest
- 2/3 Vote
Revenue Options

- Full cost recovery for special financing districts
- Provide an accurate level of service for the funds that are available
- Plan for district maturity