



# STAFF REPORT – CITY COUNCIL MEETING

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April 19, 2023

**TO:** Honorable Mayor and City Council Members

**FROM:** Tabatha Miller, Finance Director

**PREPARER:** Tabatha Miller, Finance Director

**DATE:** April 10, 2023

**TITLE:** **Public Hearing on Proposed Master Fee Schedule for Fiscal Year (FY) 2023-24.**

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## **RECOMMENDATION:**

It is recommended that the Council:

- 1) Open the public hearing to receive public comment regarding the proposed changes to the master fee schedule for FY 2023-24; and
- 2) Adopt Resolution No. 223-50, A Resolution of the City Council of the City of Arcata Updating the Master Fee Schedule for Various Fees and Service Charges for the FY 2023-24.

## **INTRODUCTION:**

The City reviews and updates the City's Fees, consistent with the goal of ensuring, with only a few exceptions, that fees for City services are sufficient to fully recover the cost of providing those services. The attached proposed fees have been prepared to meet this strategic objective.

State law requires that changes to the City's fees be presented to the City Council at a public hearing in accordance with Government Code section 66016.

## **BACKGROUND:**

Typically, as part of the budget preparation process, staff review current fees to determine whether such fees and charges are sufficient to recoup costs associated with providing services to the public. Attachment B is a redline version of the proposed changes to the existing Master Fee Schedule which was adopted on June 22, 2022.

The Master Fee Schedule (Schedule) consolidates all City fees and charges into one schedule. Therefore, the Schedule includes already adopted rates for certain fees, including the City's Water and Wastewater Utilities, Business License Tax Fees and Established Parking Penalties. When fees and charges are newly implemented or increased, a public hearing is required by CA Government Code Section 66018. The public hearing notice was published on April 5 and April 12 in the *Mad River Union* in accordance with CA Government Code Sections 66016 and 6062a.

## DISCUSSION:

Staff time and other costs incurred in conducting City business (such as processing of development and other applications, inspections, providing classes, renting facilities, and most other services) are generally measurable and are provided for the benefit of individuals as opposed to the benefit of the community as a whole. Hence, fees for these activities are not taxes, but rather, they are fees for services.

Increases in fees and charges for miscellaneous City services are governed by Government Code Section 66018. Miscellaneous fees and charges are limited to the amount necessary to cover the service's cost. If fees in excess of the cost are collected, they must be used to reduce the service charge cost. Excess fees cannot become a source of revenue for the General Fund. Actual costs can vary significantly from year to year based on staffing or the cost of supplies. Staffing costs can vary with turnover and increase to benefits including which CalPERS pension plans employees are enrolled and cost of health insurance the employee selects. To avoid annual ups and downs in fees and to ensure that the City, the City applies a cost of living index most years and only calculates the estimated actual costs periodically.

The City has incorporated the annual change in CPI for All Urban Consumers (CPI-U) for U.S. city average, to adjust fees and charges for miscellaneous City services, excluding utilities, transportation charges, facility rentals and other fees tied to taxes, county or state or federal standard. The CPI for All Urban Consumers U.S. city average for the last seven years, as provided by the U.S. Bureau of Labor Statistics (data.bls.gov), are set forth below.

<b>CPI for All Urban Consumers (CPI-U)</b>			
<b>Original Data Value</b>			
<b>U.S. city average</b>			
<b>Year</b>	<b>Annual</b>	<b>Difference</b>	<b>%</b>
<b>2016</b>	240.007	2.99	1.26%
<b>2017</b>	245.120	5.11	2.13%
<b>2018</b>	251.107	5.99	2.44%
<b>2019</b>	255.657	4.55	1.81%
<b>2020</b>	258.811	3.15	1.23%
<b>2021</b>	270.970	12.16	4.70%
<b>2022</b>	292.655	21.68	8.00%

The City Council adopted Water and Wastewater Rates for FY 2020-2025 in July, 2020, based on the Bartle Wells Associate Rate Study. The changes set forth in the attached Schedule reflect the rates already adopted by the City Council. Water Rates were increased 1.5% and Wastewater Rates by 8.0%, effective July 1, 2023.

Additionally, the City has limited increases for rental of City facilities to less than CPI-U. This year those fees were increased by 75% of the CPI-U or 6.0%. Although Staff is sensitive to the impact on those that rent City facilities, Arcata's rental rates have lagged below other public facilities' rates in the area.

Fees and charges for a “development project,” as defined by CA Government Code Section 66000, may take effect no less than 60 days after approval. A “development project” is any project undertaken for the purpose of development and includes the issuance of a permit for construction, or reconstruction. For consistency in implementing the fee changes and to ensure that the City complies with all waiting periods, staff is recommending all the proposed fee changes become effective on July 1, 2023, which coincides with the start of the new 2023-24 fiscal year (FY).

### **ENVIRONMENTAL REVIEW (CEQA):**

The adoption of this Resolution is exempt from the California Environmental Quality Act (“CEQA,” Public Resources Code Sections 21000 et seq.), because it approves and sets forth a procedure for determining fees for the purpose of meeting the operating expenses of City departments, as set forth in Public Resources Code Section 21080(b)(8)(A) and Section 15273 of the California Environmental Quality Act Guidelines.

### **BUDGET/FISCAL IMPACT:**

#### Enterprise Funds

Including the enterprise funds, user fees and charges account for \$16.2 million of the City’s total estimated annual revenue of \$65.17 million in FY 2022-23. Water and Wastewater charges account for \$13.3 million or 82% of that total. Water rates were increased just 1.5%, so we anticipate a small increase to Water Fund service charges in the new fiscal year, keeping in mind the state of the drought or lack of drought will likely impact use and demand for water this next fiscal year.

Wastewater Service charges will increase 8%, as part of the plan to accumulate funds to pay for Wastewater Treatment Plant upgrades and other capital improvements that cannot be funded through state and federal grants. As approved by City Council, Stormwater User Fees and Charges adjust annually from 2020-2024 by the CPI-U U.S. City Average from the prior calendar year. Therefore, Stormwater fees will increase 8% consistent with other City charges and fees. No increase in Transit ridership charges is included in the proposed Schedule.

#### General Fund

If you exclude the enterprise funds from the total user fees, charges and permits, \$1.56 million is expected to be generated in the General Fund in FY 2022-23. Approximately \$914k (59%) from development permits and fees, \$120k from Police Department charges, \$375k from recreation classes and programs and \$151k from rental of city facilities. This is just 8.0% of the FY 2022-23 General Fund Revenues. The estimated increase in user fees and charges for the General Fund in FY 2023-24, assuming FY 2022-23 revenue levels, is approximately \$112,000.

### **ATTACHMENTS:**

- A. Resolution No. 223-50 Adopting Master Fee Schedule (DOCX)
- B. Master Fee Schedule FY24 Redline Version (PDF)
- C. FY24 Master Fee Schedule for Resolution (PDF)