

Section 5.3 **Opportunities for Rate Restructuring**

5.3 OPPORTUNITIES FOR RATE RESTRUCTURING

Opportunities for Rate Restructuring identify impacts on rates and fees for services and facilities and recognize opportunities to positively impact rates without decreasing service levels. The OPR MSR Guidelines suggest that LAFCO may compile and review certain rate related data and other information that may impact rates. The focus is on whether there are viable options to increase the public agency's efficiency through rate restructuring prior to any SOI adjustment.

5.3.1 Overview of Existing Rates and Fees Structure

The City sets rates and fees for wastewater, roadways, police, fire, storm drainage, and parks. All other services (e.g., water, solid waste, electric, natural gas, cable, etc.) are provided by existing providers whose rates are established through mechanisms that are not governed by the City of Chico. If and when the City ultimately assumes jurisdiction of areas in the SOI, the City would then set the standard rates and fees in these incorporated areas for services provided by the City of Chico.

The City levies a series of development impact fees to offset the impacts of new development. Fund revenues and balances are contained in the City's annual budget. Beyond fees established in accordance with Government Code §66000, the City may also establish fees or exactions through the development agreement process. The City's development impact fee programs are discussed in Section 5.1, Financing Constraints and Opportunities, of this MSR. In addition to development impact fees, the City uses a variety of financing mechanisms to fund and maintain infrastructure and services. Examples of the type of funding mechanisms used include the following.

- User/Services Fees
- General Fund
- Federal/State Grants and Programs
- Direct Developer Contribution/Construction
- Assessment Districts
- Maintenance Districts

Determination 5.3-1

The City sets rates and fees for wastewater, roadways, police, fire, storm drainage, and parks. All other services are provided by existing providers whose rates are established through mechanisms that are not governed by the City of Chico. If and when the City ultimately assumes jurisdiction of areas in the SOI for which it would provide services, the City would set the standard rates and fees in those incorporated areas.

Determination 5.3-2

The City has used a proactive approach to ensure the long-term stability of the City's financial position and appropriate fees and rates. This includes policies that require new development to pay for infrastructure and services; however, the City's General Plan does not require a fiscal impact analysis be prepared prior to, and for, major development proposals.

5.3.2 Plans and Regulatory Requirements

■ City of Chico General Plan Policies

The City of Chico General Plan contains limited policies that directly address rate-restructuring opportunities. The General Plan does, however, include a number of policies devoted to infrastructure and service financing. These include policies that require new development to construct or fund improvements necessary to mitigate development impacts.

■ Capital Improvement Program

The City of Chico's General Plan has five main purposes. One of those purposes is "...to provide the basis for establishing and setting priorities for a capital improvement program."⁴² The City's CIP is supported through a variety of funding sources. A large portion of the funding for projects in the CIP comes from restricted-use funds such as developer fees, redevelopment funds, gas tax, and enterprise funds. The General Fund can provide a source of revenue for general capital needs in years in which the budget is able to support capital projects. In addition, City staff has been successful in recent years in obtaining state and federal grant program financing as an outside funding source for capital projects.⁴³

5.3.3 Proposed Rate/Fee Restructuring Plans

In 2002, the City completed a comprehensive review and update of fees related to development services. The 2002 study was based on figures from the 2000-01 budget. At the direction of the Chico City Council, City staff completed an updated analysis of the City's costs associated with providing development services, based on budget information from the 2004-05 adopted budget.⁴⁴ The study identified all City costs associated with each service provided by the Planning, Public Works Engineering, Development Engineering, and Building departments and divisions. The updated study showed that the City is generally not recovering all costs associated with the services provided by the divisions evaluated. City services related to development functions are structured in the City budget to function as an enterprise fund. Enterprise funds are designed to support "fee for service" operations. An enterprise fund operates similar to a private business, where the services provided are financed through user fees. Revenue in the enterprise fund is used to cover the City's costs of providing development services. If these service fees are not set to recover the cost to the City, then the appropriate amount of additional revenue will not be generated when development activity is at increased levels; thereby, not generating adequate revenue to

42 City of Chico *General Plan* (1994, revised 1999), p. 1-5.

43 City of Chico, *Proposed Annual Budget 2005-2006, Capital Improvement Program*, p. 1.

44 Community Services Department, *Agenda Report, Re: Development Services Fee Study Report*, Meeting Date September 28, 2005, p. 1.

providing funding for the necessary assistance to allow the City to provide quality services to the Chico community.⁴⁵

As determined by the 2005 City of Chico Development User Fee Study Update Final Report, all departments and divisions studied charged less than the full cost of providing services, although amounts varied, which resulted in a funding deficit and the need for an overall subsidy for the services.⁴⁶ The results of the analysis demonstrated the actual cost of providing the fee-related services. For each department or division, the study identified the following:

1. the full cost to the City to provide the service,
2. the current revenue received from current City fees,
3. the potential revenue from the study's recommended fees rates, and finally
4. the overall potential for revenue growth.

The study determined that the actual hourly rate for cost of services was substantially disproportionate to that of what was being charged as a fee for the services. Overall, Planning, Public Works Engineering, Development Engineering, and Building departments/divisions were collecting just under \$1 million less in revenue annually than what the service actually cost the City to provide to the community.⁴⁷ City staff recommended acceptance of the study to the City Council, and staff was directed by Council to prepare the necessary modifications to the City fee schedule for consideration and adoption.⁴⁸

Additionally, a Sanitary Sewer Rate Analysis was conducted in 2003 to evaluate City sewer service fees. As a result of this study, sewer service rates were restructured so that revenues would fully fund maintenance and operation, and generate an appropriate reserve. Absorption of the increased sanitary sewer service costs without a rate increase could not occur without negatively impacting the City's General Fund. Absent the increase in sewer service rates, projected expenditures would exceed revenue by an estimated \$10 million over a five-year period from 2003-04 through 2007-08 and the unrestricted cash balance in the Sewer Fund would be deficient at the end of FY 2004-05.⁴⁹ Based on City Council direction, fees and rates were updated. Using the formulas set forth in the Sanitary Sewer Rate Analysis, a \$100,000 change in expenditures results in a \$0.22 change in the sewer service rates.⁵⁰ Comparatively, the City's sewer service rates (\$15.16 per residential unit located within the incorporated City of Chico and \$15.78 per residential unit outside of the incorporated City of Chico)⁵¹ fall in the lower range of rates charged by other cities of similar size and treatment plant capability (Los Angeles Community Services District – Altadena at \$7.25 to City of Santa Cruz at \$36.73).⁵²

45 Community Services Department, *Agenda Report, Re: Development Services Fee Study Report*, Meeting Date September 28, 2005, p. 2.

46 City of Chico *Development User Fee Study Update Final Report*, September 19, 2005, p. 2.

47 City of Chico *Development User Fee Study Update Final Report*, September 19, 2005, p. 2.

48 Community Services Department, *Agenda Report, Re: Development Services Fee Study Report*, Meeting Date September 28, 2005, p. 1.

49 City of Chico, *City Council Staff Report*, Director of Public Works, July 18, 2003, p. 4.

50 City of Chico, *City Council Staff Report*, Director of Public Works, July 18, 2003, p. 5.

51 Butte County LAFCO, *Municipal Services Review Domestic Water and Wastewater Services*, Draft February 2006, p. 2.3-6.

52 City of Chico, *City Council Staff Report*, Director of Public Works, July 18, 2003, p. 8.

Determination 5.3-3

Based on a comprehensive review fees related to providing development services, the City concluded that the actual cost to provide services was substantially more than what was being charged, resulting in just under \$1 million less in revenues annually than the actual City cost to provide the services. The result was deficit reimbursement, which generated the need for an overall subsidy. The City Council directed City staff to prepare modifications to the City fee schedule to provide full cost recovery for consideration and adoption.

Determination 5.3-4

A Sanitary Sewer Rate Analysis determined that rates were insufficient to cover operating costs. Sewer service rates have been restructured to ensure revenues will fully fund maintenance and operations and generate an appropriate reserve.

5.3.4 Summary of Written Determinations

- 5.3-1 *The City sets rates and fees for wastewater, roadways, police, fire, storm drainage, and parks. All other services are provided by existing providers whose rates are established through mechanisms that are not governed by the City of Chico. If and when the City ultimately assumes jurisdiction of areas in the SOI for which it would provide services, the City would set the standard rates and fees in those incorporated areas.*
- 5.3-2 *The City has used a proactive approach to ensure the long-term stability of the City's financial position and appropriate fees and rates. This includes policies that require new development to pay for infrastructure and services; however, the City's General Plan does not require a fiscal impact analysis be prepared prior to, and for, major development proposals.*
- 5.3-3 *Based on a comprehensive review fees related to providing development services, the City concluded that the actual cost to provide services was substantially more than what was being charged, resulting in just under \$1 million less in revenues annually than the actual City cost to provide the services. The result was deficit reimbursement, which generated the need for an overall subsidy. The City Council directed City staff to prepare modifications to the City fee schedule to provide full cost recovery for consideration and adoption.*
- 5.3-4 *A Sanitary Sewer Rate Analysis determined that rates were insufficient to cover operating costs. Sewer service rates have been restructured to ensure revenues will fully fund maintenance and operations and generate an appropriate reserve.*