



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Grant Yate, City Manager

Prepared by: Shannon Buckley, Assistant Administrative Services Director

Date: December 10, 2019

Subject AB1600 Annual Report for Fiscal Year 2018-19

Recommendations

1. Receive and file the report.

Background

The City of Lake Elsinore collects development impact fees for Traffic Infrastructure, City Hall and Public Works Facilities, Community Center Facilities, Lake Side Facilities, Animal Shelter Facilities, Fire Facilities, and Library Facilities.

The Mitigation Fee Act (AB 1600; Government Code Section 66000 *et seq.*) sets forth the requirements the City must follow in connection with such development impact fees, which are imposed to defray the cost of construction of public facilities related to development projects. Also, AB 1600 imposes certain accounting and comprehensive annual reporting requirements for the fees collected.

For accounting purposes, the development impact fees must be segregated from the general funds of the City and other funds or accounts containing fees collected for other improvements. Interest on each development fee fund or account must be credited to that special revenue fund or account and used for the purposes for which the fees were collected.

Government Code Section 66006 contains comprehensive annual reporting requirements for development impact fees. This statute requires the City to make the following information available to the public annually for each development impact fee:

- A brief description of the type of fee in the account.
- The amount of the fee.
- The beginning and ending balance of the account for the fiscal year.
- The amount of fees collected.
- The interest earned.

- Identification of each public improvement on which fees from the account were expended, the amount of expenditures on each improvement, and an identification of the percentage of the cost of the improvement that is being funded with impact fees.
- Identification of an approximate date by which construction of the public improvement will commence if the local agency determines that sufficient funds have been collected to complete financing on an incomplete public improvement and the public improvement remains incomplete.
- Description of each inter-fund transfer or loan made from the account, including the public improvement for which the transferred or loaned fees will be expended.
- Findings, under Government Code section 66001(d) with respect to portions of the fee account that are unexpended in the fifth fiscal year following the initial deposit in the account and every five years thereafter.
- The amount of any refunds made pursuant to statute.

The staff has compiled the attached AB 1600 Report for Fiscal Year 2018-19 per the Fee Mitigation Act. The Report provides an annual accounting of the activity in each development impact fee special revenue fund for the fiscal year ended June 30, 2019 and a five-year history. The Report also provides a plan for future uses of the unexpended special revenue fund balances. The Report is available on the City's website, and copies were sent to the Building Industry Association ("BIA") and others for review as requested by them.

In addition to the development impact fees reported in the attached AB 1600 Report, the City imposes the Western Riverside County Transportation Uniform Mitigation Fee (TUMF) and the local development fee for the Multiple Species Habitat Conservation Plan (MSHCP). These fees are a "pass-through" to WRCOG and RCA, respectively, through the City's participation in these specific regional programs. Evaluation and accounting of these regionally based fees are outside the scope of the City's AB 1600 Report.

Discussion

On June 11, 2002, City Council adopted Ordinance Number 1081, establishing its first AB 1600 development fee for Traffic Infrastructure. Subsequently, the City Council adopted and updated various other development impact fees applicable to new development within the City. The purpose of development impact fees is to finance the design, construction, and acquisition of facilities and equipment necessary to accommodate future development within the City. Through the General Plan and fee studies, the City of Lake Elsinore has established the nexus between development, the capital improvements necessary to mitigate the effects of development, and approved fees to fund the mitigation measures. Impact fees are generally reviewed every five years.

Development impact fees that are collected are segregated and placed in special revenue funds, which earn interest. Those funds are held for the facilities for which the fees are collected, under Government Code Section 66006. As of June 30, 2019, the City had seven separate and distinct fees that are collected pursuant to AB 1600. Following is a summary listing of the fees, along with the balance for each fee account at June 30, 2019:

• Traffic Infrastructure Fee	\$ 4,936,973
• City Hall and Public Works Facilities Fee	65,910
• Community Center Fee	28,978
• Lake Side Facilities Fee	60,922
• Animal Shelter Facilities Fee	108
• Library Facilities Fee	1,806,028
• Fire Facilities Fee	512

The AB 1600 Report includes a detailed expenditure and revenue report for each development impact fee special revenue fund. The nature of the development impact fee special revenue funds is such that the timing of receipt of revenues and construction of the related capital projects rarely coincide. As a practical matter, revenues are collected over time and accumulated until a related development project is needed; in years of construction, accumulated reserves will be used up. In certain instances, the City has constructed projects in advance of collecting sufficient funds through borrowing from other City funds, or by issuing long-term external debt. This practice has resulted in certain categories of the AB1600 funds to operate with a deficit balance.

In using the expenditure and revenue reports to determine whether the fees have been spent within five years of collection, the total expenditures and transfers-out over the five years must be added together, and then that total must be subtracted from the earliest fund balance. In a number of instances, this calculation shows that not only have fees collected five years ago been spent but depending on the fund, fees collected in ensuing years have also been spent.

Although AB1600 requires fees collected from developers to be expended or committed within five years, the law allows exceptions in recognition that some project costs can be of a magnitude that takes more than five years to accrue adequate funds; or matching funds may not be available within the five years. AB 1600 requires the City to make certain findings as to any unexpended development impact fee funds, whether committed or uncommitted, remaining after the fifth fiscal year following the first deposit and every five years thereafter.

All development impact fee categories satisfy the provision of AB1600 that funds be expended within five years. Moreover, the City's Five Year (2019/20-2023/24) Capital Improvement Program (CIP), adopted on June 11, 2019, provides detail regarding the sources, amounts, and approximate dates of funding anticipated over a five-year period that will be used to complete the financing of future capital projects such that all fund equity balances have been programmed to fund projects.

Fiscal Impact

Tracking of the fund activities, summarizing the activity for the AB 1600 Report, and preparation of the Report requires accounting and administrative resources. No funds were expended on outside sources to comply with this unfunded State mandate. This is a required reporting and compliance report per the California Government Code 66006.

Exhibits

Exhibit A - AB1600 Annual Report