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City staff's comparison faulty

Second look at calculations sheds new light on Kingman's fees

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The city of Kingman's impact fee rates may not be as affordable as officials originally thought.

A calculation error in a report presented last month significantly altered the reality of Kingman's competitiveness when it comes to how much the city charges impact fees to commercial developments.

During a June 16 workshop, Finance Director Coral Loyd gave a presentation to city officials and the public that compared Kingman's impact fee rates to other Arizona cities.

The mayor had called the workshop to see if it was plausible, in light of the economic downturn, to reduce the transportation portion of the fees, which represent the biggest burden for commercial development. Doing so, he believes, would lessen the burden on companies wanting to build in Kingman while increasing the city's sales tax revenue base. But the majority of Council, after seeing where Kingman ranks and hearing the hardship such a reduction would cause, was not highly receptive to the idea.

Kingman charges new commercial developments \$5.28 per square foot, and according to the statistics presented last month, the city ranks well below the average of other cities used in the pool. The average rate on the transportation portion of impact fees, according to the data, was \$7.13 per square foot, but a closer look at the numbers shows that Kingman is much more to the average than the original data suggested.

Errors unintentional

It seems there was an error in calculating the impact fee averages, as well as in the projections of how much the city

would lose if it were to reduce a portion of the fees.

"I've been looking at this stuff, and I've been looking at how it was presented to us. I don't think any of the staff members were trying to be misleading ...," Mayor John Salem said last week. "They just added the averages together."

Impact fees for commercial are charged to several different categories - police, fire, stormwater, transportation or streets, and general government. The revenue generated from the fees goes into an individual fund and is used to pay for long-term, growth-related capital improvement projects. These could include police or fire stations, new stormwater facilities, road improvement projects or traffic interchanges.

In the Powerpoint presentation given during the public workshop June 16, staff showed statistics that averaged the rates for each category; however, the total average of \$7.13 was calculated incorrectly. Rather than using the total for each city and dividing that by the total number of cities to reach the average, the calculation took the averages of individual categories to reach the \$7.13 amount.

Normally, this would lead to the same outcome. But not all cities charge impact fees in every category. Because zeros were not put in those categories, the averages weren't based on the total number of cities.

For example, the transportation portion, which several local officials want to reduce, showed an average of \$4.34 per square foot for all cities. That is only two cents higher than the rate Kingman charges. But the data provided to City Council included only 29 of the 41 cities that charge transportation fees. When all 41 cities in the pool are calculated, the average falls to \$3.07 per square foot. And when the extreme case of Apache Junction, which tops the list with a \$18.22 fee for transportation, is taken out of the equation, the average falls even further - to \$2.69 per square foot.

Upon further review, another significant flaw with the data surfaced as well.

Projections off

The projected deficits that would befall the city if it were to reduce transportation fees were based on 2005 data. That year, Red Oak Consulting told city officials that Kingman would generate \$2.627 million in transportation impact fees after the first two years. In fact, the city collected \$756,836 the first two years, not quite a third of the original estimates.

The problem, in part, is that the projections reported last month for coming years were based on a fee study from 2005, not actual income. Because of this, the projected deficits were significantly higher than they would have been basing estimates on the actual numbers.

Part of the reason the majority of Council did not take to the idea of reducing the impact fees was because of the burden it would place on taxpayers if the city were to make up the lost revenue with a sales tax increase.

In consideration of reducing transportation fees by 25 percent, the mayor sought to inform the Council about how much revenue the city would lose. However, the amount staff said would have to be made up over the next three years - \$760,750 - is based on the unrealistic 2005 projections. These projections - that the city would have more than \$2.6 million already in its transportation coffer, has already been proven wrong. The projections were off by almost \$2 million.

The city's actual income for transportation fees averaged \$378,418 annually the past two years. Using that actual data, a 25 percent reduction would cause that revenue to fall to \$283,813 annually.

Without a reduction in the fees, staff projected the city would collect \$350,000 in revenues for fiscal year 2009. With a 25-percent reduction, staff showed that the city would lose \$87,500. That estimate, considering that the actual average income has been \$378,000, is on target.

By 2010, however, staff reported to Council that it could expect an income of \$1.32 million, with a projected deficit of \$330,000. If those projections instead were based on actual revenues, not a study conducted at the end of Kingman's economic boom, then income projections would be closer to the last two-year average - \$378,418 - and the deficit would be closer to \$94,604. Based on actual revenue, a more realistic deficit than the \$760,750 presented over the next three years would be \$283,812.

"It doesn't appear that those numbers will work," Salem said, "but I see where she got them. (Staff) just pulled them right out of the book."

Council reaction

The recent revelation about the way fees were structured may not have an impact on how the elected official tasked with making a decision feel on the issue.

Because impact fees cannot be reduced across the board, the fact that the average fee total for all cities is \$4.72, not \$7.13, makes little difference. To cut back the total down to the \$4.72 average would require another fee study, something officials say they would like to avoid.

But, with the actual numbers showing that Kingman's transportation fee rate is more than a dollar higher than the 41-city average, officials may be able to justify such an adjustment.

The debate remains centered around whether developers should pay the additional fees to help with the growing capital improvement needs, or whether the average taxpayer should take on that burden. Either way, the city is facing a nearly \$300 million list of long-term capital improvements.

The impact fee agenda item originally planned for discussion on Monday has been rescheduled for a later date.

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