

Jerry Duncan  
Councilmember  
District 6

August 28, 2007

To: Fresno City Council

From: Jerry Duncan 

Subject: Direct staff to return on September 18, 2007 with the necessary documents to re-allocate incentive funding for the Municipal Restoration Zone to the Fresno Police Department for additional patrol hours

This agenda item will address two issues:

- 1) The challenge we have in providing the necessary resources to adequately fund our Fresno Police Department, especially with the current effort to combat gangs in our city.
- 2) An economic development program that was started with the best of intentions but in fact has proven to be ineffective.

There is little that needs to be said about our current challenge in combating street gangs in our City. The recent senseless acts of violence and the very appropriate surge in police activity in southwest Fresno have the entire Fresno community concerned about the growing threat these cowardly street criminals are creating.

There has been a real challenge for Chief Dyer in trying to address this issue.

The first challenge has been based on the lack of growth in our police department, especially in the number of officers on the street over the last couple of years. In the last two years there has been no growth in the number of officers patrolling our streets. The chart below illustrates this.

Fiscal Year	Total Officers on the Street	Total Sworn
2005	463	801
2006	462	835
2007	462	837

The City is also starting to slip with the total number of sworn officers as measured in "sworn per thousand population".

As our population grows, if we do not add new officers every year, we will start falling behind. The chart below illustrates the recent trend.

Fiscal Year	Total Authorized Sworn	City of Fresno Population	Sworn per 1,000 population
2005	801	477,251	1.68
2006	835	471,599	1.77
2007	837	481,035	1.74



The national average of officers per thousand is 2.4 and the long established goal for Fresno is 2.0 per thousand. To achieve these numbers we would need a total of 1,154 officers to achieve the 2.4 ratio (an increase of 38% over current levels) and 962 officers to achieve the 2.0 ratio (an increase of 15%).

While the long-term solution of adding significantly more officers is beyond this request, it does illustrate that we have not kept up with our population growth, let alone expanding the department to improve the ratio and increase overall protection of the public.

One of the consequences of this has been what recently occurred. Chief Dyer, in an appropriate and proper decision, had to reallocate resources from one part of the City to another in order to provide the officer-power for the gang surge. In speaking with the Chief on this issue, he has indicated that generally the need for this surge in presence is required several times per year during peak activity by these criminals.

The purpose of this agenda item is to provide the Chief some critically needed additional resources that can be used in the short-term for such things as overtime, etc. This tool of funding can give the Chief the ability to insure his efforts to control gangs is met as well as the ability to provide appropriate police presence in the rest of the City.

The other issue is what is being proposed as the source for this additional funding.

The Municipal Restoration Zone was introduced in 2006 with much fanfare. Its well-meaning intent was to provide incentives for hiring and business expansion in economically challenged areas of our City. The program offers financial incentives for the hiring of employees, expansion and the growth in retail sales.

Incentives can be a very appropriate tool to improve the economic situation in an area. They are good, however, only when they modify behavior to accomplish a goal. For example, if a company wasn't going to hire new employees but did as a result of an incentive, that would be a good thing. If the company was going to hire them anyway, then the incentive had nothing to do with their decision and the value of the tax-paid incentive is questionable.

After a year, there are a number of companies that are filing claims for payment from the City under this program.

Every company my office contacted that has qualified, applied, or is scheduled to receive a benefit under the MRZ program, all but one have indicated that the MRZ program played no role at all in their decisions to add employees, relocate or expand. This means that they would have done this anyway even without the MRZ.

If everyone we are giving money to would have done what they are doing anyway, the only conclusion in regard to the effectiveness of this program is that it is not effective and should be terminated.

Council, we cannot afford to fund ineffective programs, especially when we are facing a public safety crisis with the infestation of gang activity in our City. This is an opportunity to redirect possibly several hundred thousand dollars where they are critically needed.

This agenda request is intended to redirect available incentive funds. It is not intended to provide for the elimination of the much needed personnel in the Economic Development Department. It is my hope they can be reassigned to other critical efforts our department is engaged in intended to improve our economy. These people have worked hard and the resulting ineffectiveness has nothing to do with their effort but rather with a program who's initial framework was not done right to begin with.

The Mayor is also proposing that we look to ask our taxpayers to dig a little deeper in their pockets to provide extra dollars for public safety. It will be very hard for our voters to be able to support this if we cannot look them in the eye and tell them we are doing everything we can to eliminate waste and we are only directing our tax dollars where they are doing the job.

The Municipal Restoration Zone is NOT working. The Fresno Police Department is.

I'd appreciate your support.

**MRZ APPLICANT COMMENTS**

As compiled by the Office of Councilman Jerry Duncan

August 28, 2007

Company	Address	Comments
Action Towing and Dive Team	2822 E. California	Decision to expand was based on company need, not incentives.
Apple Valley Farms	1828 E. Hedges	Benefit would help, but decision to grow is based on company need, not incentives.
Cedar Avenue Recycle & Transfer Station	3457 S. Cedar	Decision to expand was based on company need, not incentives.
Donald P. Dick Air Conditioning	1444 N. Whitney	Business is expanding with additional employees and square footage. Decision to expand was not based on the incentives.
Fresno Landscaping	1243 N. Backer	Company relocated from Clovis and expanded their business. Decision was not based on MRZ benefits.
Haron Motor Sales	2222 Ventura	The business was growing and needed additional employees. Decision to grow was not based on incentives.
Hocus Pocus Magic	1492 N. Clark	Decision to expand was based on company need, not incentives.
Kotenkoff Granite	1530 N. Maple	(Have not returned calls)
Leonardo's Pizzeria	4993 E. Kings Canyon	Decision to expand was based on company need, not incentives.
Pleasant Mattress	375 S. West Avenue	
R.H. Kiggins Construction	4735 E. Floradora	The additional jobs were needed for their business expansion. It is a nice incentive, but they would have hired them anyway.
RM King Co.	315 N. Marks	Company was already growing as part of a November '05 expansion. Decision to hire additional employees was not based on incentives.
Sequoia Community Health Foundation	1350 S. Orange	(Have not returned calls)
Subway	2425 Merced Street	Their business expanded in 2005. Decision to expand was not based on incentives as they were not available at the time.
The Mechanic Shop	602 Broadway	Decision to expand was based on company need, not incentives.
Utility Trailer Sales	2680 S. East Avenue	Incentives were a motivating factor for expansion. Credits help to counter balance some of the fees they will have to pay toward the cost of expanding, i.e. street fees, storm water drainage, etc.
Western Manufacturing	2476 S. Railroad	Applicant just found out about the program a couple of months ago. They would have hired additional employees anyway.

CITY OF FRESNO  
**MUNICIPAL RESTORATION ZONE**

**Frequently Asked Questions**

**What is the Incentive Period?**

Each Incentive Period runs according to the fiscal year, July 1 through June 30. The initial Incentive Period is July 1, 2006 through June 30, 2007. The program is scheduled to sunset on June 30, 2021.

**How do I know if my business is located in the MRZ?**

If your business is located in the City limits and is south of McKinley and west of Peach, you are most likely in the MRZ. If you are unsure, go to our website, [www.FresnoEZ.com](http://www.FresnoEZ.com) and use our Incentive Zones Address Locator.

**How do I know if my business qualifies as an Eligible New Business?**

If you are a commercial, industrial, retail, or other legitimate business that on or after July 1, 2006 established a business location within the MRZ, you most likely qualify.

**How do I know if my business qualifies as an Eligible Expanding Business?**

If you are a commercial, industrial retail, or other legitimate business already located within the MRZ, who on or after July 1, 2006 expanded your physical facilities by at least 20 percent (based on useable square footage for business operations), OR have increased the number of employees filling full-time positions by at least 20 percent, you probably qualify.

**What is an Eligible Business Property?**

An Eligible Business Property is real property with the MRZ, which the new or expanding business occupies under either (a) an ownership interest, or (2) a long term lease (not less than five years), and which is properly zoned for, or for which the business holds a conditional use permit, that permits the physical business facilities on, and the business activities of the business on the real property.

**If I moved my business from another city into the Fresno MRZ, would I qualify?**

Yes! You would qualify as an Eligible New Business.

**If I moved my existing business from another area of Fresno into the MRZ, would I still qualify?**

Yes! You would qualify as an Eligible New Business.

**I just found out about the benefits of the MRZ and I already paid full price for my building permit fees. Can I get a refund?**

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Yes! If you paid your fee between July 1, 2006 and the date of your application submission, you may obtain a retroactive refund. Simply contact the Economic Development Department for the forms you need.

**I have an employee who lived in the MRZ when I first hired him, but he has since moved out. Am I still eligible for the hiring credit, or will I have to pay it back?**

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Yes, you are still eligible. This credit is based on the employee's address at the time of hire. It does not matter if they move out at a later date.

**What if an employee who lived elsewhere when I hired him moved into the MRZ after hire? Would that employee qualify for the hiring credit?**

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No. The credit is based on the employee's address at the time of hire.

**How do I apply for the MRZ?**

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After the Qualifying Event, each business must fill out an Application to Determine Eligibility. Then during the filing period – October 1 through June 1 following the June 30 end of Incentive Period – apply for the specific refund(s) you're entitled to. Applications are available online at [www.FresnoEz.com](http://www.FresnoEz.com) or at the Economic Development Department at 2600 Fresno Street, Room 3076.

**I still have questions. Is there someone who can explain this to me in further detail?**

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Yes. E-mail Melodee Schwamb at [Melodee.Schwamb@Fresno.gov](mailto:Melodee.Schwamb@Fresno.gov) or call (559) 621-8366.

**Jerry Duncan - Re: MRZ Question**

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**From:** Jerry Duncan  
**To:** Scott Johnson  
**Date:** 8/10/2007 11:52 AM  
**Subject:** Re: MRZ Question

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Thanks Scott. I'd like the list of who they are.

Thanks

Jerry Duncan  
Fresno City Council, District Six  
2600 Fresno Street  
Fresno, Ca 93621  
Please visit the District website at [www.fresno6.com](http://www.fresno6.com)

>>> On 8/10/2007 at 11:32 AM, in message <46BC4CBB.81E1.00EC.0@fresno.gov>, Scott Johnson <Scott.J@fresno.gov> wrote:

Jerry,

Nineteen businesses have been conditionally approved so far for future benefits as they have until October 1st to file for the prior fiscal year of 2007. Of those nineteen businesses, six are qualified to request their payments so far and they are putting their paperwork together. Those six businesses so far, would qualify for approximately \$123,000 in benefits. More to come from the other businesses upon qualifying. Hope this helps.

Scott L. Johnson  
Economic Development Director  
City of Fresno  
(559) 621-8350

>>> Jerry Duncan 8/7/2007 3:05 PM >>>

Can you tell what MRZ benefits have been paid out so far and who got them?

Thanks

Jerry

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**From:** Renena Smith  
**To:** Jerry Duncan  
**Date:** 8/10/2007 4:06 PM  
**Subject:** Re: Question

In FY 2007 this item was budgeted as a revenue offset to Sales Tax at \$500,000. When the FY 2007 budget was adopted the process for claims had not been identified. The theory was that the MRZ would net an additional \$500K in revenue and the rebates would be paid as a reduction to the revenue. The process development took a while to define. The approved process resulted in no rebates in FY 07. I will not know the actual impact to the sales tax revenue until the businesses file their claims starting October 1 for last year. Planning & Development also obligated an additional \$500K in available fee reductions for qualified individuals.

In FY 2008 the program is established in its own fund #24047 MRZ Fund. Please reference the bottom of page 37 of the Proposed Budget Detail or let me know if you would like a copy. As noted there is \$250,000 in the Refunds & Claims Account and another \$250,000 in Contingency for a total \$500K General Fund obligation. The General Fund will transfer money into this fund as the rebates are approved or qualified. Planning and Development has again assumed \$500K of fee reductions for this program as well.

Please let me know if you have more questions or need more information.

Thanks,  
Renena

>>> Jerry Duncan 08/10/2007 2:57 PM >>>

Thanks Renena. Can I get the adopted FY08 budget breakdown for this program and what the budget and actual was for 07?

Jerry Duncan  
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>>> On 8/7/2007 at 4:01 PM, in message <4688975D.9F70.007B.0@fresno.gov>, Renena Smith <RenenaS@fresno.gov> wrote:  
The filing period for the prior fiscal year (FY 2007) begins on October 1st. There are 4-5 companies that may file early. No one has filed year to date.

Economic Development provides the City Manager's Office a status report on the companies they are working with to determine qualifications and provide process assistance.

>>> Jerry Duncan 08/07/2007 2:54 PM >>>

Thanks

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>>> On 8/7/2007 at 2:52 PM, in message <46888736.9F70.007B.0@fresno.gov>, Renena Smith <RenenaS@fresno.gov> wrote:  
I have access to the total benefits amount. I will run a report and get you that information this afternoon.  
The recipient detail is maintained by Economic Development.

>>> Jerry Duncan 08/07/2007 2:22 PM >>>

Can you tell what MRZ benefits have been paid out so far and who got them?

Thanks

Jerry Duncan  
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Chief Dyer:

Here are the statistics you requested for Councilmember Duncan. The Patrol numbers were supplied by Lt. Farrah, from the annual Matrix authorization.

**2003**

287 patrol officers	Total Authorized Sworn 745
70 DCST officers	Population 457,309
22 Traffic Officers	Sworn per 1,000 population equals 1.63
379 total	

**2004**

294 patrol officers	Total Authorized Sworn 763
70 DCST officers	Population 457,168
75 traffic officers	Sworn per 1,000 population equals 1.67
439 Total	

**2005**

318 patrol officers	Total Authorized Sworn 801
70 DCST officers	Population 477,251
75 traffic officers	Sworn per 1,000 population equals 1.68
463 total	

**2006**

317 patrol officers	Total Authorized Sworn 835
70 DCST officers	Population 471,599
75 traffic officers	Sworn per 1,000 population equals 1.77
462 total	

**2007**

317 patrol officers	Total Authorized Sworn 837
70 DCST officers	Population 481,035
75 traffic officers	Sworn per 1,000 population equals 1.74
462 total	

Listed below are the sworn positions for each year and the ratio per 1,000 population taken from the 2025 Public Safety Needs Assessment.

<b>Year</b>	<b>Total Sworn</b>	<b>Sworn Per 1,000 Population</b>
1990	410	1.17
1991	410	1.11
1992	410	1.05
1993	410	1.04
1994	470	1.17
1995	502	1.24
1996	551	1.36
1997	599	1.47
1998	653	1.60
1999	694	1.67
2000	701	1.67
2001	701	1.64
2002	715	1.59
2003	745	1.63
2004	763	1.67
2005	801	1.68
2006	835	1.77
2007	837	1.74

City of



**REPORT TO THE CITY COUNCIL**

AGENDA ITEM NO.

COUNCIL MEETING 8/28/2007

APPROVED BY

DEPARTMENT DIRECTOR

CITY MANAGER

August 28, 2007

**FROM:**

JEAN M. ROUSSEAU, City Controller  
Finance Department

**BY:**

BRIAN REAMS, Revenue Manager  
Finance Department

**SUBJECT:**

FINANCE DEPARTMENT RECOMMENDATION REGARDING PROPOSED REPEAL OF FRESNO MUNICIPAL CODE SECTION 5-302b.

**KEY RESULT AREAS**

Customer Satisfaction and Financial Management

**RECOMMENDATION**

The Finance Department recommends that that there be no repeal of Fresno Municipal Code Section 5-302b "License Fees Based Upon Sales" on the grounds that if it is repealed, future increases that may be desired by Council will require voter approval in accordance with the provisions of California Proposition 218. This legislation, enacted in 1996, now limits the authority of municipal governing bodies regarding their ability to raise revenues through taxation.

**EXECUTIVE SUMMARY**

Section 5-302b "License Fees Based Upon Sales" of the Fresno Municipal Code was implemented in October of 1990 at a time of financial distress within the City. The council at the time was seeking various business customer acceptable ways to increase revenue through tax and fee increases. The Consumer Price Index (CPI) inflation adjustment method was and is considered an acceptable method in the business community for the calculation of business tax increases. Section 5-302b reads as follows.

**SECTION 5-302. LICENSE FEES BASED UPON SALES.**

**(b) The maximum retail and wholesale license fees shall escalate on November 1, 1990; and thereafter shall escalate annually, on July 1 of each year commencing on July 1, 1991, automatically without further action by this Council, by the percentage increase in the Consumer Price Index (Los Angeles-Anaheim-Riverside City Average for urban wage earners and clerical workers--all items, as published by the Bureau of Labor Statistics of the United States of America) between March of said year and March of the preceding year, whichever is greater, unless the Council shall determine prior to July 1 of any year that all or part of the increase shall be deferred.**

For consistency, the business community prefers regular small increases as opposed to random larger ones. The addition of this Section in 1990, insured businesses that the increases could be anticipated and estimated in advance of their taking affect. In addition it provides for Council to defer the increase should it be determined that it is in the best interest of the City which it has done for numerous years.

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Proposed Repeal of Section 5-302b  
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In the years since this Section was passed in 1996, Californians passed Proposition 218. This proposition lays out a series of lengthy and cumbersome sequential steps that must be followed prior to the implementation of a new tax or an increase to an existing increase. In some instances a 2/3 vote of the public may be required prior to passage.

Although the City has, as part of the budgetary process, chosen to defer the automatic increases to its tax rate table allowed in Section 5-302 of the Municipal Code, since the passage of Prop 218, there is a consensus of opinion that as Section 5-302b was in place prior to the passage of Prop 218 that its provisions are grandfathered into place. The Finance Department interprets this to mean that currently the City Council has the authority to increase the Business Tax Rate Table within the limitations of CPI as outlined in the code section as part of the budgetary process or by a direct resolution. If at some time in the future the Council should find it necessary to implement a tax increase to assist with revenue generation using this section of code they can currently argue they have the grandfathered authority to do so without following the Prop 218 process.

With it removed, there is argument that any increase in the business tax rates will need to follow Prop 218 guidelines. For the purpose of maintaining this flexibility, the Finance Department recommends that Council not remove of this portion of the Fresno Municipal Code.



REPORT TO THE CITY COUNCIL

AGENDA ITEM NO.
COUNCIL MEETING 8/28/2007
APPROVED BY
DEPARTMENT DIRECTOR
CITY MANAGER

August 28, 2007

FROM: JEAN M. ROUSSEAU, Controller  
Finance Department

BY: BRIAN REAMS, Revenue Manager  
Finance Department

SUBJECT: RESPONSE TO COUNCIL REQUEST TO ANALYZE THE COST/BENEFIT OF RAISING THE MINIMUM THRESHOLD FOR PAYMENT OF BUSINESS TAX TO ENSURE THE COST OF PROCESSING EACH TRANSACTION DOES NOT EXCEED THE REVENUE RECEIVED

**KEY RESULT AREA**

Customer Satisfaction, Financial Management, and Employee Satisfaction.

**RECOMMENDATION**

Staff recommends that Council defer any change in the minimum threshold in Business Tax reporting until the installation of the new, yet to be selected, Business License software, and related procedural changes are complete. In addition, a more detailed investigation must be engaged prior to the removal of certain portions of the existing business code and resulting tax revenue stream, which will determine future impacts. Eliminating or revising the existing code section could make it difficult or impossible to restore at a later date unless the cumbersome Proposition 218 process is followed explicitly. Proposition 218 summarily limits the authority granted to governing bodies with regard to their ability to raise revenue through taxation.

**EXECUTIVE SUMMARY**

The Business Tax Section of the Finance Department processes approximately 24,650 "gross receipts" Business Tax Returns quarterly. Business Tax invoices, unlike utility invoices are not bills for services rendered, but rather are returns providing information which are prepared and forwarded by registered businesses to the City. The primary purpose for the informational returns is for the business to pay a tax relative to the business' prior quarterly earnings. Tax return forms are mailed to all registered businesses within city boundaries for the purpose of reminding them of their payment obligation and to enable the City to update its records for changes in ownership, business classification or contact information.

In fiscal year 2000, the City Council established a minimum threshold of \$1,250 in quarterly earnings before any business would be subject to the tax. As of the fourth quarter of FY 2007, 6,300 registered businesses or 25% of the City's total registered businesses fell into this "zero taxes due" group. However, to ensure compliance with the ordinance by those businesses above

the threshold, all active businesses must be contacted and required to report on their current status. As such, adjusting the minimum taxable threshold would not change current practice nor reduce processing costs for the Business Tax Section of Utilities, Billings & Collection.

Attempting to determine the cost of processing a return is not a straight forward calculation as the Business Tax Section does not process returns in a single manner. Returns are processed in several ways. Approximately 11,800 or 48% of the returns are processed through a high speed processing machine that is shared within the City's Utilities Division. The labor costs to process these are approximately \$720 per quarter. The second method is through the City Hall front counter operation. It is estimated that approximately 2,000 payments per quarter are processed over the counter at a labor cost of \$5,200 per quarter. Payments are usually made at this location for the purpose of complying with a payment deadline or for the purpose of being able to receive hands-on customer service. The remaining 4,550 are processed at clerks' desks. These returns usually require some level of correction or follow-up. They are processed as a secondary "filler" task between other functions, such as answering phone calls and processing new applications. The labor cost to process both counter and desk payments is estimated to be \$10,106.

The 6,300 "zero payment due" returns fall into a lower processing priority since cash receipts do not accompany them. They are generally processed for little to no cost by student interns working with the Finance Department's school outreach program. It is estimated that a quarterly expense of \$242 in labor dollars is incurred to process these. In addition, production costs of paper, envelopes and postage add approximately \$.52 cents per piece. Using all of these figures, the Business Tax Section estimates an average cost of approximately \$1.18 to process each return. This figure would obviously be higher if the overhead of machinery or personnel were not already being allocated to various other tasks beyond just the processing of returns. At this current rate, the cost to produce and process these returns is estimated to be only 14% of the amount receipted.

To better identify the current breakdown of the level of the City's business tax accounts the following chart is provided:

Gross Receipts	Accounts	Tax	Total Revenue
\$ 0 – 1,250	6,300	0	\$ 0
\$1,250 – 3,000	1,660	8.50	\$ 14,110
\$3,000 – 6,000	<u>2,034</u>	12.50	\$ <u>25,425</u>
<b>Total</b>	<b>9,994</b>	-	<b>\$ 39,535</b>

The Business Tax Section is in the process of an overall operations review. This is in addition to the section's FY08 software upgrade request, along with the City Attorney's code streamlining project. Both require evaluation of old processes and the improvement and upgrading to more efficient and effective processes. As the Section seeks to implement the new software functionality, it will also seek to modify the code to match upgraded processing capabilities. An example of this would be the potential to provide on-line licensing renewals. This would eliminate a percentage of the existing returns that need manual processing by staff.

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MINIMUM THRESHOLD FOR PAYMENT OF BUSINESS TAX  
August 28, 2007  
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Proposition 218 summarily limits the authority granted to governing bodies with regard to their ability to raise revenue through taxation. The current tax table was grandfathered into place and its taxes may continue to be assessed for years to come at the existing rates. Once a reduction in those tables occurs, any attempt to increase them in the future will require passage by a vote of the public. Since revenue flow is not a static occurrence, the Finance Department does not recommend the roll-back of what may in the future be viewed as a necessary revenue source.

While an immediate increase in the tax threshold might provide nominal and temporarily enhancement in Employee Satisfaction and Customer Service it could have a long term detrimental impact to Financial Management as a result of potential lost revenues. With the upgrade to the Business License software alone, Employee Satisfaction and Customer Service will be greatly enhanced. Finance currently recommends that no changes be made to the existing threshold until the new system is in place and the cost/benefit analysis can be reevaluated. In addition, the applicability of Proposition of 218 will be more thoroughly investigated.