



Legislation Details (With Text)

File #: RES 15-0014 **Version:** 1
Type: Public Hearing - SR w/Resolution **Status:** Agenda Ready
In control: City Council Regular Meeting
On agenda: 4/21/2015 **Final action:** 4/21/2015
Title: Conduct Public Hearing to Consider Resolution No. 15-0014 Adopting the 2015 Cost Recovery User Fees (Finance Director Moe).
CONDUCT PUBLIC HEARING; ADOPT..Line

Sponsors:

Indexes:

Code sections:

Attachments: 1. Resolution No. 15-0014, 2. Cost Recovery Fee Table, 3. Cost of Services (User Fee) Study Final Report, 4. Full Cost Allocation Plan

Date	Ver.	Action By	Action	Result
4/21/2015	1	City Council Regular Meeting	approved	Pass

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Mark Danaj, City Manager

FROM:

Bruce Moe, Finance Director
Steve Charelian, Revenue Services Manager

SUBJECT:

Conduct Public Hearing to Consider Resolution No. 15-0014 Adopting the 2015 Cost Recovery User Fees (Finance Director Moe).

CONDUCT PUBLIC HEARING; ADOPT

RECOMMENDATION:

Staff recommends that City Council conduct a public hearing and adopt Resolution No. 15-0014 approving the 2015 Cost Recovery Fees. The Finance Subcommittee reviewed the proposed cost recovery fees at their March 19, 2015 meeting.

FISCAL IMPLICATIONS:

Under current City cost recovery policies, staff estimates the new rates will result in approximately \$853,434 additional revenue. It is important to note that the proposed fees represent the cost for services that are discretionary on the part of the user. To the extent the City does not fully recover its costs for these services, General Fund taxes will subsidize the activity. Tax subsidies for services will reduce General Fund surpluses and correspondingly the Fund's ability to support activities such as long term capital improvements.

BACKGROUND:

The City conducted its last comprehensive cost allocation plan (CAP) and user fee study in 2010, which identified the costs associated with providing each non-tax supported service, and assigned the fully-burdened rate (i.e. direct labor costs, as well as indirect costs) of each City position involved in delivery of those services. The purpose of the cost allocation plan is to ensure that the City identifies all costs associated with activities, including overhead, to determine the true cost of providing various City services, as well as indirect costs attributable to enterprise and other chargeable funds. Over the past five years, the cost of services has increased due to salary and benefit and other operating cost increases. However, the fees charged by the City have remained unchanged.

In April 2014, the City Council authorized staff to undertake a comprehensive study of the various fees charged for non-tax supported services. The purpose of the study was to identify areas where tax dollars may be subsidizing “personal choice” services, and to ensure the fees charged do not exceed the cost of providing the service since any excess may be considered a tax. Under State law, public agencies are entitled to recover the costs associated with providing certain services that are considered “personal choice.”

A “personal choice” service is defined as a service where the customer is identifiable and the service is measurable. Examples of “personal choice” services include: building permits, block party permits, alarm permits, and building plan checks. With limited ability to raise revenues, it is becoming increasingly important that the City fully recover its costs for services provided, where appropriate.

A “user fee” is a charge for service provided by a governmental agency to the public. Several laws such as Propositions 4, 13, 26 and 218 set parameters under which the user fees can be established and administered by local government. User fees charged by local agencies may not exceed the estimated reasonable cost of providing the service for which the fee is charged (any excess is then considered a tax subject to voter approval). Local governments have broad authority to implement user fees that reasonably recover the costs of their operations.

DISCUSSION:

In 2006, the City Council adopted a policy to periodically review and update its user fees. In response to this policy, after a competitive bid process in 2014, the City hired Matrix Consulting Group to perform a comprehensive cost allocation plan and user fee study. Staff provided updated salary and benefit data to the consultants who have now provided an updated cost recovery fee table (Attachment “A”). The attachment provides detailed information on each user fee including: unique reference number, category, description, current fee, total cost of providing the service, net dollar change, new proposed fee, percentage change and estimated annual volume. The attachment also includes cost recovery fees introduced for the first time, fees which have increased greater than 50 percent, fees which were set (subsidized) by Council policy, and other fees (set by statute, fine, rentals, variable rate services, deposit/actual cost). Additionally, Attachment “B” includes the cost of services (user fee) study final report dated March 10, 2015 and Attachment “C” is the Full Cost Allocation Plan dated March 3, 2015.

How Fees are developed:

Determining the cost of providing service is a complex task. The City hired Matrix Consulting Group, recognized with over 13 years of providing financial and management analytical services to local Government. Between July 2014 and January 2015 the consultant held numerous meetings with

City Staff, and conducted interviews to confirm the actual amount of staff time expended to provide each specific service listed. They also developed schedules that identified the costs for labor benefits, overhead and materials in order to calculate a true cost of service. The fees are designed to recover the City’s costs for providing services without a “profit.” Therefore, not all fees automatically increase; some fees will adjust lower based on less staff time or changes in the level of staff providing the service.

The work accomplished by the Matrix Consulting Group in the analysis of the proposed fees for services involved the following steps:

1. Departmental staff interviews in which the project team interviewed staff in each division to evaluate their need for clarification, and to obtain a general knowledge base for the structure of the City’s existing fee schedule;
2. Data was collected for each service item, including labor time estimates, and current or potential volume for each service;
3. Concurrently, all budgeted costs and staffing levels for Fiscal Year 2014-2015 were entered into the consultant’s analytical software in order to produce a model for the allocation of overhead;
4. The full cost of providing each service included in the fee schedule was established. Cross checks, including allocation of not more than 100% of staff resources to both fee and non-fee related activity, assured the validity of the data used in the study.

An example of how a fee is developed is illustrated below. The sample, which is a “Use Permit” in Community Development (fee reference no. 17-020-01) shows total cost/recovery fee of \$6,138.00. The cost is based on the number of staff hours required to process the permit:

Service	Position	Time Estimate	Fully Burdened Hourly Rate	Total Cost
Use Permit	Director	4.75	\$170.50	\$810
	Executive Secretary	6.25	\$91.75	\$573
	Associate Planner	24.00	\$135.82	\$3,260
	Assistant Planner	1.25	\$126.35	\$158
	Planning Manager	6.00	\$164.22	\$985
	Sr. Plan Check Engineer	.50	\$141.96	\$71
	Fire Marshall/Captain	.50	\$227.36	\$114
	Sr. Management Analyst	.25	\$105.62	\$26
	City Engineer	.25	\$140.88	\$35
	Public Works Inspector	1.50	\$69.83	\$105
			Total	\$6,138*

*rounded to the nearest dollar

The hourly rates that are used for each position include not only the employee’s salary and benefits, but a proportionate share of operating expenses, overhead, and replacement costs for assets involved in the delivery of service (i.e. the fully burdened rate). Similar cost recovery worksheets have been developed for each of the services, and provide support for each of the recommended fees.

Attachment #2 is a table that presents the recommended fees from the Study as follows:

1. Recommended/Updated User Fees based on the latest study
2. New fees not previously included in fee schedule
3. Fees with a net increase of 50% or greater
4. Fees that are set by City Council policy
5. Other Fees/Fines:
 - a. set by statute/law
 - b. rental of City property
 - c. fees for variable services/deposits
 - d. fines

Fees listed under #4 (Council Policy) reflect fees which the City Council has chosen to subsidize by policy. These subsidies total \$425,000 under this current fee study. Staff recommends that the City Council review these fees and reconsider these subsidies.

Other fees and fines (#5) include fees which are set and regulated by State Law, Government Code or by the Courts. These include photocopying charges and Civil Subpoena as examples. The subsidies for these services are estimated to cost the City \$22,000 annually, but cannot be increased.

The rental of City property includes long term rental of public right of way (including patio areas utilized by Uncle Bill's [195 square feet], Ocean View [270 sf], Fusion Sushi [270 sf] and Summers [44 sf] or daily filming fees). These fees are set at the discretion of the City without limitation of cost of service recovery.

The variable rate service fees are fully recoverable by the actual cost of providing the service based on fully burdened rates. These include asphalt and concrete repairs and damage to City property as examples. Additionally, fees which are undetermined due to unknown scope of work may require a minimum deposit until actual costs are known, and may be increased pursuant to an agreement approved by the City Manager or City Attorney.

The Fines listed in the study include those items that are not otherwise already established by other existing resolutions or ordinances, and include Police and Fire False Alarm response.

The Finance Subcommittee reviewed the 2015 cost recovery fees at their March 19, 2015 meeting. On April 1, 2015, the City notified the Building Industry Association of Southern Californian (BIA), The Gas Company and Southern California Edison (SCE) of the proposed fee increase and tonight's public hearing to comply with California Government Code Section 66016. The public hearing was properly noticed in the April 2, 2015 edition of The Beach Reporter.

CONCLUSION:

Staff recommends that City Council conduct a public hearing and adopt Resolution No. 15-0014 approving the 2015 Cost Recovery Fees.

Attachments:

1. Resolution No. 15-0014
2. Cost Recovery Fee Table
3. Cost of Services (User Fee) Study Final Report

4. Full Cost Allocation Plan