



Legislation Text

File #: 20-0103, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Finance Director

Henry Mitzner, Controller

Cynthia F. Mickschl, Revenue Services Manager

SUBJECT:

Conduct Public Hearing to Consider Adopting Resolutions Regarding the Citywide User Fee Schedule and Cost Allocation Plan, Including Administrative Fees Applicable to Wireless Encroachment Permits in The Public Rights-Of-Way (Finance Director Charelian).

- a) **CONDUCT PUBLIC HEARING**
- b) **ADOPT RESOLUTION NO. 20-0025 (COMPREHENSIVE FEE SCHEDULE)**
- c) **ADOPT RESOLUTION NO. 20-0026 (WIRELESS ENCROACHMENT PERMITS)**

RECOMMENDATION:

Staff recommends that the City Council conduct a public hearing to consider adopting resolutions 20-0025 and 20-0026 regarding the Citywide User Fee Schedule and Cost Allocation Plan, including administrative fees applicable to wireless encroachment permits in the public rights-of-way.

FISCAL IMPLICATIONS:

Results of the current City User Fee Study and Cost Allocation Plan (CAP) indicate the City will receive an estimated \$561,000 of additional revenue for cost recovery annually using the new proposed rate schedule. It is important to note that the proposed rates represent the costs 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, the General Fund would subsidize the activity. Subsidizing discretionary services reduces the General Fund's ability to finance activities that support the entire community, such as long-term capital improvements or public safety.

BACKGROUND:

In 2006, the City Council adopted a policy to periodically review and update its user fees and has been updating fees every four to five years which is an industry best practice.

In 2014, the City adopted the current Comprehensive Cost Allocation Plan and User Fee Study, which identified costs associated with providing non tax-supported services.

Over the past five years, costs to provide services have increased due to changes in salaries, benefits, staffing, and other operational costs. The City has been able to adjust fees based on known factors, such as salary increases from employer group Memoranda of Understanding (MOU)

approved by City Council. Fees did not increase with other operational costs, during the same period, since they were unknown.

In June 2018, the City contracted with Matrix Consulting Group and began the process of updating the City's Comprehensive Cost Allocation Plan and User Fee Studies. The purpose of these studies is to identify areas where tax dollars may be subsidizing "personal choice" services and to ensure fees charged do not exceed the actual cost of providing the service. Several laws such as Propositions 13, 4, 218, and 26 set parameters under which user fees can be established and administered by local government. User fees risk being considered taxes if they exceed the reasonable cost of providing the service. Local governments have broad authority to implement user fees to reasonably recover the costs of their operations.

At the October 24, 2019, Finance Subcommittee meeting, Matrix Consulting Group presented an overview of the Study and proposed fees, followed by questions and answers. The Subcommittee voted to recommend presenting the Comprehensive Cost Allocation Plan and User Fee Study as a public hearing at the November 19, 2019 City Council meeting.

At the November 19, 2019 Public Hearing, City Council requested additional modification to the fee schedule showing the percentage increase/decrease for each fee and asked staff to return on February 18, 2020.

DISCUSSION:

Under State law, public agencies are entitled to recover the costs associated with providing certain services considered to be a "personal choice" or "user fees." Such services are provided to a specific customer for their singular benefit. Some of those services are building permits, block party permits, alarm permits, and building plan checks. The City fully recovers its costs, where appropriate, using the analysis provided by Matrix Consulting Group.

How Fees Are Developed:

First, a full Cost Allocation Plan is created in order to spread costs from central support service departments, to the other departments, divisions, cost centers, and funds that receive services in support of their daily operations. Central Services include Management Services, Finance, and Human Resources. In addition, management and external support within a service department such as Community Development or Public Works are captured in the full-cost of providing a service.

This practice allows an organization to better understand the full cost of providing specific services to the community, and generates organizational awareness of the indirect (overhead) costs associated with operations. Matrix Consulting Group compiled information in accordance with Generally Accepted Accounting Principles (GAAP) and used methods of indirect cost allocation as defined by the federal Office of Management and Budget's (OMB) Title 2 Code of Federal Regulation (CFR) 200.

Determining the recoverable cost of providing services is complex:

- Numerous meetings are held with City staff and subject matter experts to conduct interviews and confirm personnel providing services and the time spent by each.
- Consultants work with Staff to ensure time estimates are normalized (*averaged*) in order to mitigate over/under recovery.
- Schedules are developed that identify the costs for labor, benefits, overhead and materials using a proprietary software.

- The volume associated with each fee is captured by evaluating data from the City's cashiering, permitting, work order and other software programs. Estimates are provided for any new fees.
- Department management is asked to review both the Cost Allocation Plan and Fee Schedule throughout the process for accuracy.

Fees are intended to recover the City's costs for providing services without "profit." Not all fees automatically increase; in some cases, fees may adjust lower.

An example of how a fee is developed is illustrated below. This "Use Permit" fee shows a total cost recovery fee of \$8,393.38 based on staff and time from intake to issuance:

Division: Planning
Category/Fee Use Permit
Title:
Range: Use Permit

Process Step Details:	Dept.	Divisio	Positic	Time to Complete	Fully Burdened Rate	Total
Intake / Routing	CD	Curren	Asst. /	0.25	\$ 135.82	\$ 33.95
		Plannir	Planne			
Intake / Routing	CD	Curren	Admin	0.75	\$ 95.10	\$ 71.33
		Plannir				
Review	Fire	Preven	Fire M	0.50	\$ 279.94	\$ 139.97
Review	PW	Admin	Mgmt.	0.25	\$ 117.80	\$ 29.45
Review	CD	Plan C	Plan C	0.50	\$ 161.87	\$ 80.93
		Engine				
Review	PW	Civil	Princip	1.50	\$ 159.15	\$ 238.72
		Engine	Engine			
Review	PW	Civil	Public	0.25	\$ 109.79	\$ 27.45
		Engine	Inspect			
Review	CD	Curren	Asst. /	13.00	\$ 135.82	\$ 1,765.61
		Plannir	Planne			
Resubmittal	CD	Curren	Asst. /	8.00	\$ 135.82	\$ 1,086.53
		Plannir	Planne			
Resubmittal	CD	Curren	Plannir	3.00	\$ 175.15	\$ 525.45
		Plannir				
Planning	CD	Curren	Admin	3.00	\$ 95.10	\$ 285.30
Commission		Plannir				
Planning	CD	Curren	Asst. /	12.00	\$ 135.82	\$ 1,629.79
Commission		Plannir	Planne			
Planning	CD	Admin	Comm	2.00	\$ 194.14	\$ 388.28
Commission		Directo				
Planning	CD	Curren	Plannir	6.00	\$ 175.15	\$ 1,050.90
Commission		Plannir				

PC Follow-Up & City Council	CD	CurrenAdmin 4.50 Plannir	\$ 95.10	\$ 427.95
PC Follow-Up & City Council	CD	CurrenAsst. / 2.50 PlannirPlanne	\$ 135.82	\$ 339.54
PC Follow-Up & City Council	CD	Admin Comm0.50 Directo	\$ 194.14	\$ 97.07
PC Follow-Up & City Council	CD	CurrenPlannir1.00 Plannir	\$ 175.15	\$ 175.15
FEE @ 100% COST RECOVERY				\$ 8,393.38

The hourly rates used for each position is “fully burdened” meaning that it includes 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 the service. Worksheets similar to this have been created as support for each user fee.

The attached Proposed Schedule of Fees provides information for each fee including the current fee, total cost of providing the service, net dollar change, percentage increase/decrease, proposed fee, any special conditions, and the estimated annual volume. The “Special Condition” column references New fees, fees which have previously been set by City Council policy, fees set by statute, and which have a modified structure during this study.

During the past five years, the City has seen many changes including the addition of new staff positions and modifications to some processes. For example, some services previously completed by the City Traffic Engineer will now be handled by the new Traffic Engineering Technician at a lower rate. Changes to Federal and State regulations also impacts fees. New regulations pertaining to telecommunication infrastructure and HVAC systems have created the need for staff to spend additional time during reviews and inspections to ensure compliance with these regulations, which in turn affects fees. Changes to key management positions with the hiring of a new Fire Chief, Building Official, City Engineer, and Utilities Manager brought additional experience and expertise, which was essential to enhancing and restructuring some of the City’s services.

Fire Department

There is a new fee and structure changes in the Fire Department that should be highlighted; the multi-family unit annual inspection fee. There are approximately 300 apartment buildings or multi-family unit buildings within the City that require this inspection, and per the State Fire Code, these types of inspections are fully recoverable by the agency that provides them. This same code allows for the City to recover costs for the first annual business inspection and each re-inspection. There are approximately 1,000 annual business inspections. Staff has requested that the City eliminate the practice of providing the first two inspections at no-cost.

Community Development

Building Permit Fees were restructured to utilize a non-subjective factor for calculation, square footage that is more equitable and defensible than the valuation based model in place today. The way the City uses the valuation based model differs from other jurisdictions because we do not simply take the value given to us by the applicant. We also calculate the square footage of the project and utilize standard industry tables to verify the reasonability of the applicant’s valuation. Changing the

fee calculation methodology, creating combination permits and restructuring some fees are major factors contributing to the large percentage increase/decrease seen in the fee table. Another factor is that some of the current fees shown were based on outdated industry tables. It is important to note that the permits themselves are required based on the California Building Code (CBC) and the inspections are to ensure that the project conforms with those codes.

Right-of-Way permitting was carefully reviewed interdepartmentally. Subject matter experts that work on these types of permits revised the way this service is charged in order to accurately reflect the types of projects taking place in the City and charge accordingly. Staff also created additional structure for other types of fees such as the special events application taking into consideration what is actually occurring in day-to-day operations.

Technology Fee:

During the next several years the City will see technological improvements. A new permitting solution, Tyler Energov, was implemented on January 21, 2020. The Fire Department will implement a new record management system (RMS) and over the next 12-24 months, Tyler Munis will replace the City's current Enterprise Resource Planning (ERP) solution.

In order to mitigate the cost to taxpayers for the new permitting solution, primarily used for non-tax supported services, an account will be created to receive revenue from a three percent technology fee that will be added to certain permits. These revenues will be used to pay for the initial software purchase, annual maintenance and half of the Building Services Analyst salary that provides direct software support.

Additionally, the Fire Department anticipates implementing a five percent technology fee to mitigate the costs of their Fire Records Management System (RMS) software. The fee will only be added to user fee related permits. Technology fees are a common practice among municipalities and typically range between 4-12 percent, making our rates among the lowest for this type of fee. Because this type of fee is created for a very specific use, it can only be used for technology support services.

CONCLUSION:

The overall results of the study indicate the City is effectively capturing recoverable revenue. If approved, the proposed fees will go into effect on March 18, 2020 (excluding Community Development related fees which become effective 30 days later on April 18, 2020). All other fees not defined in the study will be based on Direct Costs or Fully Burdened Rates and are executed at the discretion of the City Manager. Fees will be updated on July 1 using the current MOU pay rates.

PUBLIC OUTREACH:

Study results were presented at a public meeting of the Manhattan Beach Finance Subcommittee held at City Hall on October 24, 2019.

On September 19, 2019 and January 14, 2020, the City notified the Building Industry Association of Southern California (BIASC), The Gas Company, and Southern California Edison (SCE) of its intent to modify user fees in accordance with California Government Code Section 66016.

Email notification was sent on November 12, 2019 and February 7, 2020, to the Community Development Department email list that includes several hundred contractors and other important

stakeholders. On January 22, 2020, a notification was sent to the South Bay Association of Realtors.

A public hearing was properly noticed and held on November 19, 2019 and the public hearing continuance to be held February 18, 2020 was properly noticed in the February 6, 2020 and February 13, 2020, legal notices section of The Beach Reporter. Related documents were posted on the City website November 1, 2019 and made available at City Hall for in-person review.

ENVIRONMENTAL REVIEW:

The City reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and determined the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

ATTACHMENTS:

1. Resolution No. 20-0025
2. Resolution No. 20-0026
3. Fiscal Year 2020 Proposed Schedule of Fees
4. Valuation to Square Footage Memorandum
5. Report on Cost of Services Study (User Fee)
6. 2019 Comprehensive Cost Allocation Plan (Web-Link Provided)