



Legislation Text

File #: 25-0055, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Talyn Mirzakhanian, City Manager

FROM:

Libby Bretthauer, Acting Finance Director
Julie Bondarchuk, Financial Controller
Emy-Rose Hanna, Budget & Financial Analyst

SUBJECT:

Conduct a Public Hearing for Consideration of Adopting a Resolution Regarding the Citywide User Fee Schedule and Cost Allocation Plan (Unbudgeted) (Acting Finance Director Bretthauer).

(Estimated Time: 45 Min.)

- A) CONDUCT PUBLIC HEARING**
 - B) ADOPT RESOLUTION NO. 25-0020**
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RECOMMENDATION:

Staff recommends that the City Council conduct a public hearing to consider adopting resolution No. 25-0020 regarding the Comprehensive User Fee Schedule and Cost Allocation Plan.

FISCAL IMPLICATIONS:

Results of the Cost Allocation Plan (“CAP”) and User Fee Study (“UFS”) show the City will achieve an estimated \$1,502,284 in additional revenue annually by adopting the new fees. It is important to note that the proposed fees represent the costs for services that are discretionary on the part of the user. If the City does not fully recover its costs for these services, the General Fund will subsidize the activity, which reduces the General Fund’s ability to finance activities that support the entire community, such as ongoing operations and long-term capital improvements.

Furthermore, the purpose of the Cost Allocation Plan (CAP) and the User Fee Study (UFS) is to determine the true cost of providing various City services including the indirect costs attributable to enterprise and other chargeable funds. By identifying the true cost of services and adjusting user fees annually, the City will minimize General Fund subsidies.

BACKGROUND:

In February 2020, the City adopted its last comprehensive cost allocation plan and user fee study, which identified costs associated with providing each non-tax-supported service, and assigned the fully burdened rate (i.e. direct labor costs and indirect costs) of each City position involved in delivery of those services.

It is best practice to periodically update the Cost Allocation Plan to ensure that the City identifies all costs associated with providing services, including overhead and indirect costs attributable to enterprise and other chargeable funds. Over the past five years, the cost of service has increased due to increases in salaries, benefits, staffing changes and other operational costs. The current fees charged by the City have increased incrementally based on the known MOU salary rate increases for each employee class, however, the fees have not been adjusted to account for operational changes that have occurred within the last five years. For example, services such as planning and building permits have evolved in the last five years and are now processed through an online permitting system. This operational change has led to significant efficiencies in how permits are processed, along with the time and personnel involved with the services.

In May 2024, City staff initiated a new study and contracted with Willdan Financial Services (“Willdan”) with the goals of re-evaluating existing fees for services, updating the fee schedule to reflect current practices, accounting for the true cost of providing City services, and incorporating current overhead rates and indirect cost rates that can be used for federal grant reimbursement.

Over the last year, the City has been actively working with the consultants to complete the study, which involved extensive participation from Finance, Community Development, Public Works, Police, Fire, City Clerk’s Office, and Parks and Recreation Departments. Staff made extensive efforts to (1) generate a comprehensive fee schedule and (2) ensure the user fees fully capture all staff time and other costs required to provide the services. Having workflow processes now documented within the permitting system also allowed for a more accurate reflection of the true costs for providing these services compared to previous studies.

On March 31, 2025, both Willdan and staff presented the preliminary results of the Cost Allocation Plan and User Fee Study to the Finance Subcommittee and received feedback on the presentation along with direction to include the annual quantities/ occurrences of the fees within the Proposed Fee Schedule.

DISCUSSION:

As financial stewards of the City, one of the main priorities of the Finance Department is to ensure the cost recovery of services through fees and charges. To achieve this, staff have conducted a Cost Allocation Plan (CAP) and User Fee Study (UFS) every four to five years to ensure our fees are aligned with cost of service. This process entails two (2) phases as follows:

Phase 1: Completion of the Cost Allocation Plan (CAP)

The purpose of the CAP is to ensure that the City identifies all costs associated with providing services, including overhead and indirect costs attributable to enterprise and other chargeable funds. Over the past few years, the cost of services has increased due to escalating operational costs for labor, contract and professional services, materials, etc.

Although City User Fees have increased every year in conjunction with labor group MOU increases, the CAP allocations adopted in 2020 have remained unchanged. Consequently, trueing up the allocations to the appropriate funds will result in significant increases to some Enterprise Funds, as depicted in TABLE 1: Results of the Cost Allocation Plan (100% Cost Recovery Model) as found within Exhibit A - Summary Tables for Staff Report attachment.

Based on feedback from the January 16, 2025, Finance Subcommittee Meeting, staff received direction to present a 100% cost recovery model to fully recover General Fund overhead costs utilized by enterprise funds.

As depicted in TABLE 1 within Exhibit A, charging the CAP based on a 100% cost recovery model would reimburse the General Fund approximately \$1,316,864 for indirect overhead costs, however, this may also lead to budgetary challenges in other funds, particularly in the Water Fund. Water and sewer rate studies are warranted to determine the best path forward to ensure fund revenues meet operational costs and infrastructure needs long-term.

Furthermore, the Cost Allocation Plan is developed by spreading costs from central support service departments, to the other departments, divisions, cost centers, and funds that receive services in support of their daily operations. This practice allows the City 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.

Additional considerations factored into the Cost Allocation Plan include the review of “fully burdened hourly rates” for each position which encompasses not just the employee’s salary and benefits, but also includes a proportionate share of operating expenses, and overhead involved in the delivery of service. The fully burdened hourly rates shown on page 26 of the User Fee Study show the Department Overhead and Indirect Overhead percentages that were developed through the CAP. This causes the hourly rates to vary across departments and positions as certain “admin” positions and central service departments will have minimal to no indirect overhead whereas external service departments and non-admin employees will have a greater level of indirect overhead. Once the appropriate overhead is apportioned across all positions, the final “fully burdened hourly rates” are used to determine the proposed fees associated with each service as described in the next phase.

Phase 2: Completion of the User Fee Study (UFS)

Developing the comprehensive list of fees in the User Fee Study required extensive involvement from various Departments/Divisions including 1) Finance, 2) Parks and Recreation, 3) Management Services - City Clerk, 4) Police, 5) Fire, 6) Public Works and 7) Community Development - Traffic Engineering, Planning and Building Divisions.

Each Department/Division contributed to the Study by completing detailed worksheets that evaluate the time, staff positions and fully burdened hourly rates involved with each service on the fee schedule. In any case where a particular service was not identified on the fee schedule, department staff proposed a new fee to enable cost recovery for that service.

Additionally, the User Fee Study observed various factors that affected the fees as follows:

- Increased fees were generally caused by the results of the comprehensive review of all personnel and external costs involved in providing a service. A thorough review of established workflows and service delivery allowed staff and Willdan to identify missed costs that were not captured in the last Study completed in 2020.
- Decreased fees were caused by efficiencies identified where services require less time to complete and caused by changes in personnel providing the services.
- New fees were identified by staff through the User Fee Study, in which the services had no previous cost recovery mechanism and were otherwise fully subsidized by the City.

Considering user fees are discretionary on the part of the user, it is customary to introduce new fees to offset the City cost in delivering those discretionary services.

- Deleted fees were identified by staff through the User Fee Study by evaluating fees that are no longer applicable or otherwise obsolete.
- Fees with no change were also identified as fees that had no change in methodology or are fees set by state statute/law, are market driven, are deposit based, or previously set to recover “actual costs” in which the method remains the same.

Fee Changes by Department/Program are described below and further illustrated in TABLE 2: Summary of Changes by Department, as found within Exhibit A - Summary Tables for Staff Report attachment.

1. Finance Fees include a mixture of return check fees, business and dog license related fees, parking permit fees, and long-term and sidewalk dining permit fees. The Study resulted in an increase to 5 fees, decrease to 1 fee and 11 fees remaining as-is.
2. Parks and Recreation Fees - Non-program / Activity Related include services related to banner installation, special events, and film permits. The Study resulted in an increase to 6 fees and 1 fee being eliminated.
3. Management Services - City Clerk Fees include services related to reproduction services, regulated fees, or fees not otherwise recommended to be changed. The Study resulted with all eight fees remaining as-is.
4. Citywide Fees include the Finance penalty for late payment, the technology fee, and a new fee for administrative citation appeals.
5. Police Fees include a variety of event type permits, parking violation penalties, animal services, alarm permit fees and technical support fees. The Study resulted in an increase to 18 fees, decrease to one fee, five fees remaining as-is and two fees eliminated.
6. Fire Fees include a variety of fire inspection/permit fees, ambulance transport fees and the fire technology fee. The Study resulted in an increase to five fees, decrease to 29 fees, addition of 14 new fees and seven fees remaining as-is.
7. Public Works Fees include a mixture of barricade rental fees, tree removal permits, utility related charges and civil engineering services. The Study resulted in an increase to 13 fees, decrease to four fees, addition of two new fees, six fees remaining as-is and eight fees eliminated (three of which are the Online Bid and Proposal Fees which are no longer applicable and other fees that were duplicative).
8. Community Development - Traffic Engineering Fees include parking related request services and appeal fees. The Study resulted in an increase to four fees, decrease to two fees, addition of one new fees and four fees remaining as-is.
9. Community Development - Planning Fees include a variety of planning review, development related services and appeal fees. The Study resulted in an increase to 63 fees, decrease to 23 fees, addition of 33 new fees, nine fees remaining as-is, and three fees eliminated.
10. Community Development - Building Fees include a variety of building permit, inspection, plan check and development related services. The Study resulted in an increase to 90 fees, decrease to 27 fees, addition of 28 new fees, 10 fees remaining as-is and eight fees eliminated.

Overall, the Study observed 437 Citywide user fees across 10 Departments/Divisions.

Comparative Analysis of Other City Fees

In assessing the customer impact of the fee changes, Willdan completed a comparison of other city fees to our proposed fees. The survey included the cities of Beverly Hills, Torrance, Redondo Beach, Newport Beach and Santa Monica. The results of the comparison are included in attached as Comparative Analysis of Other City Fees. This Analysis shows that the fees vary drastically across other municipalities as each city has their own set of operations and procedures in their service delivery that are unique to their city. For example, the City's Planning Variance suggested fee of \$7,113 is on the lower end compared to the other cities of Beverly Hills (\$26,763), Torrance (\$12,258), and Santa Monica (\$19,764.12), yet is higher than the cities of Redondo Beach (\$3,200) and Newport Beach (\$5,791). Additionally, the fees assessed by other cities may not reflect an apples to apples comparison as each city may have different cost recovery methods (i.e. valuation based building permit fees v. square-footage based building permits fees).

Policy Considerations

The goal of the User Fee Study is to achieve the highest level of cost recovery possible. In certain situations, subsidization is an effective public policy tool to 1) encourage participation, 2) ensure compliance when cost is prohibitive to residents, and 3) promote access to services.

During this User Fee Study, staff evaluated several fees that were limited by State law or otherwise previously set by City Council. Staff suggests revisiting and resetting the fees previously set by City Council due to the increased cost (and subsidy) in providing the service, as illustrated in TABLE 3: Fees Previously Set by City Council, as found within Exhibit A - Summary Tables for Staff Report attachment.

Cost Recovery Realized through Study

Based on estimates from the User Fee Study, adjusting citywide user fees would allow the City to realize an estimated \$1,502,284 annually that would have otherwise been subsidized by the City (see TABLE 4: Cost Recovery Results from Proposed User Fees, as found within Exhibit A - Summary Tables for Staff Report). It is important to note that existing fee activity and revenues were used to project the estimated revenues illustrated in TABLE 4, however, these estimates do not include any new proposed fee revenue as those quantities and prior history do not exist.

Next Steps

If adopted, the new Citywide and building-related fees could go into effect on July 1, 2025. In accordance with Resolution No. 25-0020, the user fees will set to increase or decrease on July 1st in the years going forward based on any salary increase/decreases per the future Memoranda of Understanding with City Employee bargaining groups. This annual adjustment will apply to all fees with the exception of fees set by law or by Council Policy.

PUBLIC OUTREACH:

The preliminary results of the Cost Allocation Plan and User Fee Study were presented at a public meeting of the Manhattan Beach Finance Subcommittee held at City Hall on March 31, 2025.

On April 1, 2025, 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 April 10, 2025, to the Community Development Department email list that includes several hundred contractors and other important stakeholders.

Additionally, the public hearing for April 15, 2025 was properly noticed in the April 3, 2025, legal notices section of The Beach Reporter. Related documents were posted on the City website on April 4, 2025, and made available at City Hall for in-person review.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it consists of an administrative activity of government that will not result in direct or indirect physical changes in the environment. 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. 25-0020
2. Exhibit A - Summary Tables for Staff Report
3. Comparative Analysis of Other City Fees
4. Proposed Comprehensive Fee Schedule
5. Report on User Fee Study
6. Report on Cost Allocation Plan
7. PowerPoint Presentation