



Citywide User Fee and Cost Recovery Studies
City Council Meeting– February 1, 2022

Discussion Topics

- Background Information
- Citywide User Fee and Cost Recovery Study – Methodology and Status
- Study Results by Department with Departmental Recommendations:
 - Public Works Department
 - Energy Resources Department



Background Information

What are the City's Fees and Charges?

- Two categories of fees and charges:



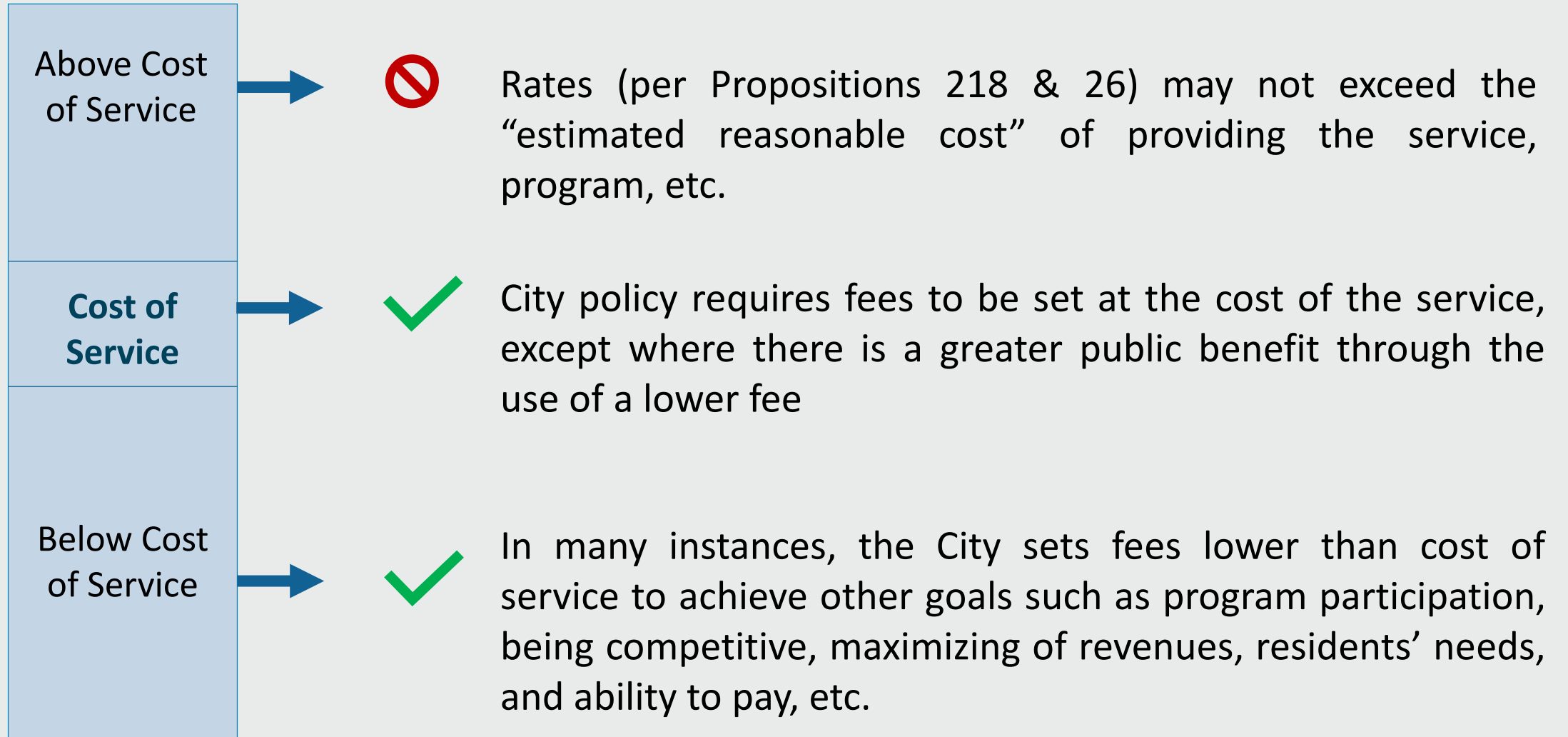
Charged for the use of a public service or program



Charged to recover costs to regulate or mitigate fee payer's activities

- Rent and penalties are included by convenience in the master fees and charges schedule but are not fees, and rents and penalties are set at the City's discretion

How Rates for Fees and Charges are established



What is the Process to Adopt and Update Fees Rates?

- To capture annual cost increases the City has implemented an annual inflation adjustment, subject to annual review for appropriateness
- Master Fees and Charges Schedule typically adopted each year with the Budget
- Mid-year minor adjustments are usually made in a periodic fee adjustment Council Letter either submitted by the Budget Office or a department
- The next citywide fee adjustment letter is anticipated for April 2022

Fee Rate Changes Impact to Revenue Budgets

- Fee adjustment Council Letters include estimated theoretical revenue impacts of any proposed fee change
- The amounts budgeted in a year are not necessarily the same as the theoretical impact
- Changes to budgeted revenues are evaluated holistically as part of the proposed budget process and take into account a variety of factors such as the stability and certainty of revenue source and anticipated volume

A blue-tinted photograph of a beach and ocean. The foreground shows gentle waves washing onto a sandy beach. In the middle ground, a city skyline is visible across the water, featuring several buildings of varying heights. The sky is filled with soft, wispy clouds. The overall mood is serene and coastal.

Citywide Fee Study Methodology and Status

Citywide Fee Study Project Overview

- In FY 19, at the City Council's direction, staff initiated an updated citywide fee study to conduct a comprehensive cost of service analysis to determine the full business cost of providing each service and the subvention (subsidy) rates for services
- A multi-year project with all City fees evaluated, but there will be exceptions such as where there are separate rate studies or rates are set by external agencies
- For each department, the study will:
 - *Identify and review the fees charged by each department*
 - *Calculate the full service cost, with indirect and direct costs associated with the fees*
 - *Determine the subvention rates (subsidy level) by comparing the fee revenue to the full cost of service*
 - *Provide recommendations*

Project Status

- The project is moving forward on a “rolling-basis” with multiple departments at any one time. The study is anticipated to conclude by the end of 2022
- The 1st Round is completed and was presented to the City Council on April 6, 2021, and covered Development Services, Parks, and Health & Human Services (partial analysis) Departments
- The 2nd Round includes Energy Resources and Public Works Departments, with Police Department’s results and recommendations to be presented as part of the next project round
- The 3rd round is in progress and includes Fire, City Manager, and Health & Human Services Departments. Preliminary results and department recommendations are anticipated, at the earliest, summer 2022

Methodology Overview

- Identify service centers and the cost components including:
 - **Direct Cost** – *Salaries, benefits, and operating expenses*
 - **Indirect Costs** – *General and departmental overhead, including administration and citywide indirect costs (from Indirect Cost Plan)*
- Calculate the fully burdened hourly rates (FBHR) per position that includes direct and indirect costs
- Determine positions and staff time spent supporting each service
- FBHR is then multiplied to the time spent by position to allocate costs to the service
- Identify subvention rates by comparing the fully allocated service costs to current fee revenues received

Study Results and Department Recommendations

- Each of the studies found that departments were generally under recovering for calculated service costs.
- A summary of cost recovery and subvention rates at both current fee levels and revenue is as follows:

Department	Total Calculated Service Cost	Current Fee Revenue	Total Profit/ (Subvention)	Cost Recovery %	Subvention %
Public Works	\$4,220,930	\$3,300,455	(\$920,475)	78%	22%
Energy Resources	\$9,824,891	\$8,320,666	(\$1,504,225)	85%	15%
TOTALS	\$14,045,821	\$11,621,121	(\$2,424,700)	83%	17%

Study Results and Department Recommendations

- Study recommends fee levels to provide full cost recovery where appropriate for services
- Each department has reviewed the Study results and has made specific recommendations for their fees that include:
 - No changes to current fees
 - Rate increases and decreases to current fees
 - New and revised fee structures to align with services
- While the majority of departments' recommendations align with the study's recommendations, the department may deviate based on various factors

Overall Impact of Department Recommendations

Table 1: Summary of Department Recommendations

Department	Total Department Recommendations	No Changes	Decreased	Increased	Restructured	Deleted	New
Public Works	117	15	24	22	27	23	6
Energy Resources	81	17	3	16	35	8	2


Table 2: Summary of Theoretical Revenue Impact from Department Recommendations

Fund Group	Theoretical Revenue Impact*
General	\$439,302
Gas	(\$104,525)
TOTAL	\$334,777

* Theoretical annual impact – budget and actual revenue may vary - budgeted amount will be determined during the budget process

Next Steps

- Departments will present an overview of their studies and proposed fee recommendations for the City Council's feedback
- On April 12, 2022, a City Council item will include all recommended fee changes as a result of the Study and as presented to the City Council today



PUBLIC WORKS DEPARTMENT
Cost of Services Study and Summary of
Recommendations

Cost of Services Study Introduction

- The Public Works Department has over 280 fees
 - Of those fees, 102 are included as part of the study. The fees excluded from the study include:
 - Environmental Services (Refuse) related fees – separate rate study
 - Parking Management related fees – not determined by cost of service
 - Parking Citation / Violation fees – not determined by cost of service
 - Pipeline Franchise Fees – not determined by cost of service
 - Streetlights – Determined by a separate costing process

Study Findings Summary: Revenue & Cost by Service

Cost Recovery and Subvention Rates Based on Current Fee Levels					
Service	Total Calculated Service Cost	Current Fee Revenue	Total Profit/ (Subvention)	Cost Recovery %	Subvention %
Engineering Services	\$1,995,440	\$1,605,520	(\$389,920)	80%	20%
Traffic Engineering Services	671,570	1,091,887	420,317	163%	-63%
Field Operations Services	565,666	31,888	(533,778)	6%	94%
Stormwater Services	988,254	571,160	(417,094)	58%	42%
TOTAL	\$4,220,930	\$3,300,455	(\$920,475)	78%	22%

Proposed FY 22 Mid-Year Recommended Changes Overview

- Department recommendations include rate increases and rate decreases to meet cost recovery and operational needs, as well as changes in fee structures to better streamline processes.
- The total estimated theoretical annual revenue impact from the recommended changes is as follows:

Fund Group	Theoretical Revenue Impact
General	\$439,302

Key Items & Considerations

- Proposed changes will restructure and streamline the existing fee structure for: temporary street occupancy permitting, and inspection and excavation fees.
- Many fees have been updated to reflect changes in the permitting process and true cost of recovery for City services.
- Installation of no parking signs, curb painting, light shield installation, minor revision of existing permits, and streetlight installation have been added to the fee schedule.
- To avoid a steep spike in costs for popular services, rate increases recommended by the study will be phased-in over three years for driveway tip, curb painting on request, preferential parking, and no parking signs.
- A separate traffic control plan review fee is recommended to reflect the true cost of service.
- Wireless telecommunication facility review fees have increased to reflect the true cost of service.

Summary of Proposed FY 22 Mid-Year Recommendations

Summary of Department Recommendations

Total Department Recommendations	No Changes	Decreased	Increased	Restructured	Deleted	New
117	15	24	22	27	23	6

Department Recommendations	Service Area
No changes (fees and charges are currently set at cost recovery and operational need)	Micro Mobility Fees
Rate Decreases to align with cost recovery and operational need	Public Art Permits, Traffic Control Plan Review, Tract Map Review, Lot Line Adjustments, Street and Alley Vacation


Summary of Proposed FY 22 Mid-Year Recommendations (continued)

Department Recommendations	Service Area
Rate Increases to align with cost recovery and operational need	Permit Processing and appeals, Stormwater Compliance Inspections, Parcel Map Review, Wireless Telecommunication Facility permits
New Fee Structures (to Align with Service Provision)	Inspection Citation Fee, Permit Inspection, Temporary Street Occupancy Permits, No Parking Sign Installation, Tree Trimming Out of Cycle, Curb/Driveway Painting, Light Shield Installation, Revision of Existing Permit
Rates set below cost recovery to encourage program participation and promote equitable access to services	Driveway Parking Permit Program, Driveway Tip and Curb Painting Requests, Preferential Parking, Temporary No Parking Signs

Comparisons to Other Jurisdictions & Agencies

If recommendations are approved:

- **Permit fees** will be in line with other local agencies
- **Engineering services fees** (parcel maps, easements, inspection, etc.) will be in line, or slightly lower, than other local agencies
- **Stormwater NPDES Inspection Fees** will be in line with other local jurisdictions
- A new **Traffic Control Plan Review** fee is recommended which will be in line with other local agencies



ENERGY RESOURCES DEPARTMENT
Cost of Services Study & Summary of
Recommendations

Cost of Services Study Introduction

- The Energy Resources Department currently has a total of 81 fees reported in the Master Fees and Charges Schedule, of which 75 fees were reviewed as part of the cost of service study.
- The Department fees are across various service categories:
 - Construction & Pipeline
 - Gas Services
 - Engineering & Construction
 - Utility Services/Call Center
- Across all services reviewed, the study found that the department is currently at cost recovery of 85 percent (15 percent subsidize by Gas revenue).

Study Findings Summary: Revenue & Cost by Service

Cost Recovery and Subvention Rates Based on Current Fee Levels					
Service	Total Calculated Service Cost	Current Fee Revenue	Total Profit/ (Subvention)	Cost Recovery %	Subvention %
Gas Services	\$2,327,293	\$2,146,590	(\$180,703)	92%	8%
Utility Services/Call Center	22,140	7,548	(14,592)	34%	66%
Construction & Pipelines	632,050	1,170,821	538,771	185%	-85%
Engineering & Construction	6,843,408	4,995,707	(1,847,701)	73%	27%
TOTAL	\$9,824,891	\$8,320,666	(\$1,504,225)	85%	15%

Proposed FY 22 Mid-Year Recommended Changes Overview

- Department recommendations are to move forward with 56 rate changes based on the recommendations from the Study to restructure majority of the fees in order to recoup our costs and maintain operational needs
- If all Study recommendations are accepted, then the estimated theoretical annual revenue is \$80,675
- The total estimated theoretical annual revenue impact for partial acceptance of the recommended changes is as follows:

Fund Group	Theoretical Revenue Impact
Gas	(\$104,525)

- Fee revenue generated within the Gas Fund Group is restricted and used to support utility operations

Key Items & Considerations

- Full cost recovery is not being recommended for all fees as some relate to utility customers and the Department believes increasing these rates would cause a hardship during this rebound period from the COVID-19 pandemic.
- The Department's decision to move forward with the changes to the 56 rate items was based on infrastructure/operational needs per this Study and therefore are related to new construction, engineering, meters, and meter installations which are derived upon a contractor and/or developer's request for gas service.

Summary of Proposed FY 22 Mid-Year Recommendations

Summary of Department Recommendations

Total Department Recommendations	No Changes	Decreased	Increased	Restructured	Deleted	New
81	17	3	16	35	8	2

Department Recommendations	Service Area
No changes (fees and charges are currently set at cost recovery and operational need)	The Study validated the current rate of 8 fees within the Gas and Utility areas are acceptable and are at cost recovery.
Fee changes recommended by Study but not accepted by department at this time	The 9 fees not moving forward per the Department's decision are charges related to gas services and utility services. Energy Resources will review this at a later time and present to the City Council in the future if the Department decides to move forward with the recommendations by the Study

Summary of Proposed FY 22 Mid-Year Recommendations (continued)

Department Recommendations	Service Area
Rate Decreases to align with cost recovery and operational need	Engineering and Construction – Feed Analysis, Project Administration and Process Engineering Agreements
Rate Increases to align with cost recovery and operational need	Gas Services – Installation and purchase of meters. Pipeline Construction – New pipeline and altering services
Fee Restructures (to Align with Service Provision)	The restructured fees accepted by the Department affect all service areas, Gas, Engineering/Construction, Pipeline Construction, Utility/Call Center.

Comparisons to Other Jurisdictions & Agencies

- Due to the uniqueness and complexities of Energy Resources' rate structures and types, fees are not easily comparable across agencies. Particularly, Engineering and Pipeline Constructions are managed distinctively by each city's governing body.
- Historically, though we consider consumer utility costs for the Southern California Gas Company (SoCalGas) to ensure fair and equitable rates, specific fees are not compared with the agency as we are a municipality and mandated to follow local/State guidelines.

Wrap-up

- The City is generally under-recovering for costs within the Public Works and Energy Resources Departments
- The recommendations proposed by departments generally align with Study recommendations for full-cost recovery, where appropriate
- Deviations from the Study recommendations include setting fees lower than cost of service to achieve other goals such as residents' needs and ability to pay, etc.
- Theoretical revenue increases resulting from proposed changes will be evaluated as part of proposed budget processes
- Proposed changes to the Master Fees and Charges Schedule, inclusive of these recommendations, is scheduled to return to the City Council on April 12, 2022