



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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June 1, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Agreement With Public Resource Management Group (PRM) for Consulting Services to Undertake a Fee Study (Citywide)

DISCUSSION

In September 2003, the City adopted Financial Policies in consideration of the revenue requirements outlined in the City's Three-Year Financial Strategic Plan. The Budget Oversight Committee of the City Council requested that reports be developed every three years or less that detail the full costs (operating, direct, indirect and capital) of providing services supported by user fees.

The Department of Financial Management issued a Request for Proposal (RFP) to undertake a citywide fee study. The primary goal of the RFP was to select a firm with expertise in the area of municipal fee analysis so that an evaluation of appropriate fee levels could be undertaken. Information on the RFP process is provided after a description of the proposed work.

The City Council is requested to approve the selection of Public Resource Management Group (PRM) to conduct a citywide user fee study within 18 to 24 months. The contract period will be for 12 months with a one-year renewal option.

State law considers user fees different from taxes; it requires that user fee levels be set at or below the full cost of supplying the particular service. For purposes of this study, user fees are defined as fees paid by those receiving certain direct service(s). Taxes and development impact fees are outside the scope of this study. All fees will not be reviewed at a detailed level; it would not be cost effective. Nevertheless, once the methodology is established, the City may apply such a review to remaining fees.

PRM will conduct the study in two phases. The first phase will involve a review of certain General Fund fees that may warrant adjustment in preparation of the FY 05 budget. The purpose of this phase is to provide the City with a "gap" analysis of a limited number of fees from select City departments to determine if there is a substantial gap between user fee related cost and revenue. This effort will include

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departmental interviews, cost analysis and a comparison of program revenue to program cost. Comparison studies undertaken by departments will be reviewed.

The initial "gap" analysis will provide, if justified, a basis for raising fees to partially close the gap. However, it is not the intent to propose that the City raise fees to fully recover its costs until the later phase of this project provides more detailed cost analysis and other factors are considered. The purpose of this cost analysis is to provide data and information to assist the City Council in the development of guidelines on user fees.

City staff will work with the consultant to select the fees for this first phase of the study. The primary criteria to be used to select the fees and departments for review will be those that currently generate the most General Fund user fee revenue or have an identifiable potential to generate significant revenues for the General Fund. The target completion date is August 2004.

The next phase will immediately follow the first phase. It will entail a more detailed cost analysis of departments reviewed in phase one and a continuation of detailed analysis for selected General Fund departments as outlined below.

In all phases of the study, PRM will work with City staff to select the departments and fee areas to review. As the second phase of this study proceeds, updated reports to the City Council and/or its committees will be provided.

As part of the detailed analysis in the second phase, PRM will:

1. Review, document and enhance the existing methodology and rationale utilized to calculate the overhead, direct, indirect and capital costs factored into the establishment of fee levels;
2. Establish a consistent costing methodology. Once accomplished, this costing methodology will be applied to City fees to evaluate current fee levels for departments selected for study, to determine existing fee "gap" levels and levels to set fees to recover costs for services;
3. Develop a Citywide user fee manual, including an indexed report and associated electronic database;
4. Document current administrative practices and policies with respect to the establishment or adjustment of fees and suggest "best practices" to improve the City's fee administration;
5. Conduct a comparative analysis of selected City of Long Beach fees to other similar California municipalities. This comparison will also identify fees in other jurisdictions that the City of Long Beach may not apply. The goal of this effort will be to develop a citywide General Fund fee schedule that will accurately identify the cost of providing certain discretionary services; and,
6. Schedule City Council briefings and public input sessions to present findings and recommendations.

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It is anticipated that PRM, along with City staff, will develop recommendations with respect to user fees that consider best practices to:

1. Establish when to fully recover costs;
2. Determine the level of cost recovery depending on the type of service;
3. Consider the impact such fee increases would have on public services; and,
4. Identify where fees could recover more costs so that resources currently subsidizing fees could be utilized to fund other public demands.

The final product may include the incorporation of Enterprise Fund fees and charges into an overall fee strategy. This study may also review fines and penalties if a cost recovery component applies.

Over 15 firms requested copies of the RFP, nine attended a pre-proposal meeting and six submitted proposals. An evaluation committee comprised of representatives from Financial Management, Public Works, Planning and Building, Community Development and Parks, Recreation and Marine was formed to review the proposals, conduct interviews and make a recommendation for a contract award. Of the six submitted proposals, three were selected to advance to the interview phase of the selection process. Of the three firms scheduled for interview, one withdrew its proposal due to an unexpected departure of their senior project lead.

After a thorough review of the two finalists, the evaluation committee recommends that the City award the fee study project to Public Resource Management Group (PRM). The evaluation committee felt that the combination of the project team's experience in the areas of cost allocation and user fee studies and their proposed project plan was superior to the competing proposals. PRM's client list includes Sacramento, Denver, Burbank, La Mirada and Whittier.

This matter was reviewed by Assistant City Attorney Michael Mais on May 24, 2004, and Controller/Budget Manager Michael Killebrew on May 21, 2004.

TIMING CONSIDERATIONS

The City has retained PRM since May 1, 2004 with an interim purchase order not to exceed \$25,000 for preliminary review of the data. It will be necessary to secure City Council approval for an annual service agreement by June 1, 2004, in order to retain PRM for this service to ensure the City is committed to complete this project.

FISCAL IMPACT

The agreement with PRM to undertake a fee study shall not exceed \$198,000, which includes professional service fees and incidental costs for the length of the project of

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up to two years. The funding source for this fee study is Citywide savings due to the City's hiring freeze.

It is anticipated that there will be sufficient appropriation in General Fund and the XC Citywide Activity budget appropriation for this expenditure. If an appropriation increase is required in FY04, it will be presented to City Council as a fourth quarter budget adjustment.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to execute an agreement with Public Resource Management Group (PRM) for consulting services to undertake a citywide fee study for a 12-month period with a one-year renewal option, for an amount not to exceed \$198,000 for the project.

Respectfully submitted,



ROBERT S. TORREZ
CFO/DIRECTOR OF FINANCIAL MANAGEMENT

RST:JS:ec/ag

APPROVED:


for GERALD R. MILLER
CITY MANAGER