



Citywide User Fee and Cost Recovery Studies

City Council Meeting– May 4, 2021

Discussion Topics

- Background Information
- Citywide User Fee and Cost Recovery Study – Methodology & Status
- Study Results by Department with Departmental Recommendations:
 - Health and Human Services Department
 - Parks, Recreation, and Marine Department
 - Development Services Department



Background Information

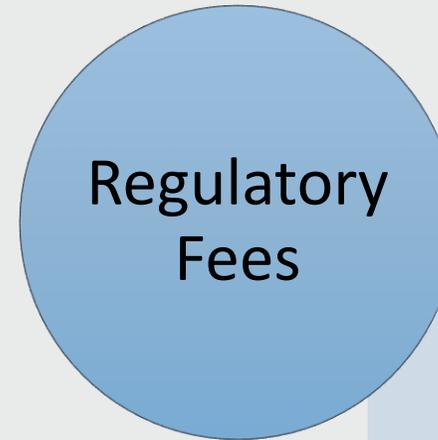
What are the City's Fees and Charges?

- Two categories of fees and charges:



User Fees

Charged for the use of a public service or program

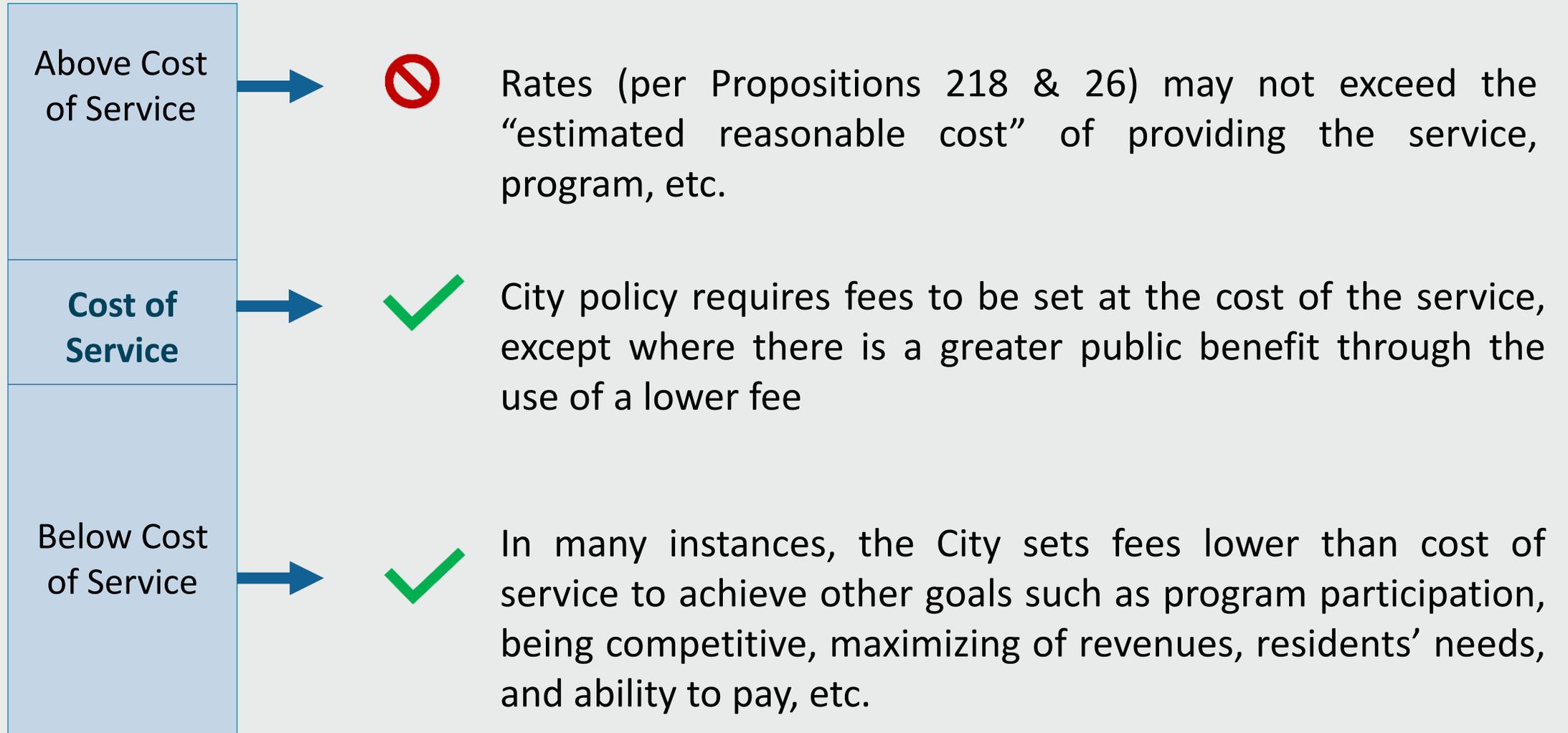


Regulatory Fees

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

- Rent and penalties are included by convenience in the master fee 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 & 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 May 2021

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 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 in 2022
- The 1st Round is completed and includes Health & Human Services (partial review), Development Services, and Parks, Recreation, and Marine
- The 2nd Round started in November and includes Energy Resources, Public Works, and Police. Preliminary results are anticipated for these departments in Summer 2021

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 %
Health	\$1,103,469	\$508,603	(\$594,866)	46%	54%
Dev Svcs	\$33,250,854	\$29,609,966	(\$3,640,888)	89%	11%
Parks	\$56,233,400	\$7,314,400	(\$48,919,000)	13%	87%

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

Dept	Total Fees Reviewed	No Changes	Decreased	Increased	Restructured	Deleted
Health	77	77	0	0	0	0
Dev Svcs	416	53	170	114	79	0
Parks	654	340	20	162	109	23
Total	1,147	470	190	276	188	23

Table 2: Summary of Theoretical Revenue Impact from Department Recommendations

Fund Group	Theoretical Revenue Impact*
General Fund	\$511,326
Development Services	\$1,426,800
Housing Development	\$32,100
Tidelands Operating	\$60,752
TOTAL	\$2,030,978

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

Next Steps

- Departments will present an overview of their studies and proposed fee recommendations for City Council comment
- On May 18, 2021, a City Council item will include all recommended fee changes as a result of the study and as presented to City Council today
- General update of the Master Fees and Charges Schedule will be done at the time of the budget adoption



Health & Human Services

Cost of Services Study & Summary of Recommendations

Cost of Services Study Introduction

- 77 fees within the Physician Services Bureau were reviewed for the following service categories:
 - *Vital Records Services (4 total)*
 - *Travel Immunization Services (7 total)*
 - *Laboratory Services (66 total)*
- Across all services reviewed, the study found that the department is at cost recovery of 46 percent (54 percent subvention).
- Environmental Health Bureau fees will be included in a later phase of the project schedule, tentatively scheduled to start in May 2021.

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 %
Vital Records Services	\$14,748	\$7,452	(\$7,296)	51%	49%
Travel Immunization Services	223,004	136,023	(86,981)	61%	39%
Laboratory Services	865,717	365,128	(500,589)	42%	58%
TOTAL	\$1,103,469	\$508,603	(\$594,866)	46%	54%

Key Items & Considerations

Summary of Department Recommendations

Total Fees	No Changes	Decreased	Increased	Restructured	Deleted
77	77	0	0	0	0

- No changes are recommended at this time
- There are many outside factors to consider while determining whether or not to accept the study's proposed fee increases:
 1. Enhancing Access to Public Health Services
 2. Comparisons to Neighboring Jurisdictions
 3. Medicare/Medi-Cal Fee Schedules for clinical fees
 4. Regulatory Requirements for laboratory fees

Comparisons to Other Jurisdictions & Agencies – Vital Records

Increasing these Vital Records fees to recover the full cost of providing these services would inhibit access to these public services.

- The study's proposed Expedited Copy of Birth Certificates fee would be 113% higher than LA County.
- The study's proposed Letters for Noncontagious Disease fee would be 450% higher than LA & Riverside Counties.
- The study's proposed Emergency Weekend Death Certificate fee would be 280% higher than Berkeley.

Proposed FY 21 Mid-Year Recommendations Overview

- Due to all preceding factors as well as the detrimental impacts the COVID-19 pandemic precipitated to the community, the Health Department is not proposing any changes to fees at this time.
- The Department will re-review the study recommendations for Physician Services fees and may move forward with proposed fee increases as part of the FY22 budget process.
- However, there is a high probability that most Physician Services fees will not be recommended for increase.



PARKS, RECREATION AND MARINE DEPARTMENT
Cost of Services Study & Summary of
Recommendations

Cost of Services Study Introduction

- The Parks, Recreation and Marine (PRM) Department has over 800 fees.
 - Of those fees, 654 are included as part of the study. The remaining fees are reviewed via other mechanisms.
 - The study discusses changes to current fees as well as possible new fees.
- PRM fees included in the study which are related to recreational use were presented to the Parks and Recreation Commission in January 2021.
- Full cost recovery is not always recommended by PRM in order to encourage access to important health and safety recreational opportunities.

Study Findings Summary: Revenue & Cost by Service

Cost Recovery and Subvention Rates Based on Current Fee Levels					
Service	Total Calculated Service Cost	Fee Revenue at Current Rates	Total Profit/ (Subvention)	Cost Recovery %	Subvention %
Animal Care Services	\$7,178,500	\$1,067,700	(\$6,110,800)	15%	85%
Aquatics	2,895,800	611,500	(2,284,300)	21%	79%
Community Recreation Services	22,077,200	4,671,900	(17,405,300)	21%	79%
Park Planning and Partnerships	3,134,800	-	(3,134,800)	0%	100%
Marine Bureau	20,947,100	963,300	(19,983,800)	5%	95%
TOTAL	\$56,233,400	\$7,314,400	(\$48,919,000)	13%	87%

Proposed FY 21 Mid-Year Recommended Changes Overview

- Department recommendations include a variety of changes including rate increases and rate decreases to meet cost recovery and operational needs, as well as changes in fee structures to align with service provision.
- The total estimated theoretical annual revenue impact from the recommended changes is as follows:

Fund Group	Theoretical Revenue Impact
General Fund	\$514,126
Tidelands Operating	\$60,752
TOTAL	\$574,878

Key Items & Considerations

- Full cost recovery is often not recommended in order to encourage program participation and to promote affordable, fair and equitable access.
- As part of the Compassion Saves policy, Animal Care Services fee changes are recommended to encourage the best outcome for treatable animals.
- Changes in fee titles to clearly identify services and users are recommended for consistency and to align with service offerings.
- Market-based fees, such as rent of space and equipment, are set by what the market can bear.
- Cost recovery by Cost Center is calculated at an aggregate level.

Summary of Proposed FY 21 Mid-Year Recommendations

Summary of Department Recommendations

Total Fees Reviewed	No Changes	Decreased	Increased	Restructured	Deleted
654	340	20	162	109	23

Department Recommendations	Service Area
No changes (fees and charges are currently set at cost recovery and operational need)	Adaptive Recreation Program, Contract Classes, Vehicle Park Entry, Swim Lessons/Activities, Adult Sports Leagues, Youth Sports Program, Archery Field Use, Day Camp, Animal Care Administrative Penalties, User and Special Services, Roller Hockey
Fee changes recommended by study but not proposed changes by department at this time	Park Planning and Partnerships fees will be brought to City Council at a later time or as part of the FY 22 Proposed Budget.

Summary of Proposed FY 21 Mid-Year Recommendations (continued)

Department Recommendations	Service Area
Rate Decreases to align with cost recovery and operational need	Animal Impound/Relinquishment/Redemption, Aquatics Youth Ticket Book, Aquatics Youth Plaza Pass, Wet Storage, Deposits
Rate Increases to align with cost recovery and operational need	Field Use, Facility Rentals, Picnic Areas/Shelters, Staff Time, Cleaning, Dry Storage, Licensing, Animal Medical Services, Youth Sports Leagues, Harbor Structure Plan Check
New Fee Structures (to Align with Service Provision)	Artificial Turf, Exclusive Use Area III, Permit Administrative Fees, Non-Special Event Races, Cancellation Fees, Pool Rental
Rates set below cost recovery to encourage program participation and promote equitable access to programs	Staff Time, Animal Impound/Relinquishment/Redemption, Youth Sports Program, Wet Storage, Animal Medical Services

Comparisons to Other Jurisdictions & Agencies

- Comparisons are difficult because other agencies have different fee structures and fee types. For example:
 - **Sports Field Use** rates are lower than many surrounding agencies.
 - **Facility Rentals** rates fall in the middle range of surrounding agencies although comparison is difficult because amenities are different.
- **Animal Care Services** provides services for multiple surrounding agencies. Animal licensing fees are in the higher range when compared to surrounding agencies.
- **Marine Bureau (Tidelands Funds)** rates maintain a competitive price point when compared to similar marina agencies across Southern California and beyond. Fees are currently set to maximize cost recovery and revenue generation to ensure a financially sound enterprise while remaining in competitive balance with marine industry price trends.



DEVELOPMENT SERVICES DEPARTMENT
Cost of Services Study & Summary of
Recommendations

Cost of Services Study Introduction

- Most (over 80%) fees support the Development Services Fund, a self-supporting fund that uses fees to support review and inspection of the safety and quality of the City's built environment.
- 416 fees for: *Building and Safety, Fire Construction Review, Current Planning, Historic Planning, Code Enforcement and Housing*
- Fees are under-collected for services overall, but Building and Safety is over collecting by 3 percent.
- The largest variances between costs and fees are for the Historic and Current Planning services, which are at cost recovery of 40 and 69 percent (60 and 31 percent subvention, respectively).

Study Findings Summary: Revenue & Cost by Service

Cost Recovery and Subvention Rates Based on Current Fee Levels					
Service	Total Calculated Service Cost	Fee Revenue at Current Rates	Total Profit/ (Subvention)	Cost Recovery %	Subvention %
Building and Safety	\$16,397,345	\$16,885,434	\$488,089	103%	-3%
Fire Construction Review	2,798,197	2,650,529	(147,668)	95%	5%
Current Planning	7,205,053	5,005,675	(2,199,378)	69%	31%
Historic Planning	2,678,686	1,063,005	(1,615,681)	40%	60%
Code Enforcement	3,624,970	3,490,803	(134,167)	96%	4%
Housing Services	546,603	514,520	(32,083)	94%	6%
TOTAL	\$33,250,854	\$29,609,966	(\$3,640,888)	89%	11%

Proposed FY 21 Mid-Year Recommended Changes Overview

- The Department is recommending both increases and decreases to fees as well as restructuring fees to achieve cost recovery and to best align with services.
- The total theoretical annual revenue change from the recommended changes is as follows:

Fund Group	Theoretical Revenue Impact
General Fund	(\$2,800)
Development Services	\$1,426,800
Housing Development	\$32,100
TOTAL	\$1,456,100

- Proposed FY 21 mid-year changes align with study recommendations for all services, except for Historic and Current Planning Services.

Key Items & Considerations

- Charges for Current and Historic Planning Services have not been achieving full cost recovery. Implementing the findings of the Fee Study would eliminate the shortfall and increase Planning fees.
- A phase-in of the higher Current and Historic Planning fees over a two- to three-year period is recommended but increases will be evaluated each year.

Summary of Proposed FY 21 Mid-Year Recommendations

Total Fees Reviewed	No Changes	Decreased	Increased	Restructured	Deleted
416	53	170	114	79	0

Department Recommendations	Service Examples
Rate decreases to full cost recovery	Building plan check, building inspections, fire life safety plan review and inspection, termination of lien
Rate increases to full cost recovery	Building trades plan check, application processing, special Code Enforcement programs
No changes	Multi-Family Inspection Fees (PRHIP)

Summary of Proposed FY 21 Mid-Year Recommendations

Department Recommendations	Service Example
Re-Structuring Fees to align with services	Fire alarm, sprinklers, standpipe, pump and plan review and inspection, planning appeal fees, business license review, MWELo plan review, sign program, Mills Act inspections, site plan review fees
New fees for newly established services or services previously provided at no-cost	Housing loan agreement development and amendment, planning appeals for affordable housing projects, Zoning Administrator interpretation, administrative adjustment, additional and post approval plan review, Short-Term Rental Opt-Out program
Phased-in rate increases	Current and Historic Planning

Comparisons to Other Jurisdictions & Agencies

- Comparison of fees for services can be difficult:
 - Services may have the same name but be delivered differently or at a higher or lower level of service
 - Other agencies may be undercharging or have less costs to cover
- Staff sampled a few common fees for services for Building and Current Planning and found they were in the range of other cities.

Comparisons to Other Jurisdictions & Agencies

	Long Beach	Anaheim	Culver City	Los Angeles	San Diego	San Jose
Current Planning						
Lot Merger	\$1,515	\$3,500 deposit	\$1,372	\$3,474	\$1,681	\$2,424
Conditional Use Permit	\$8,400	\$7,216	\$18,655	\$12,633	\$8,000 deposit	\$16,619
Building						
2,500 SF new single-family dwelling Valuation: \$250,000	\$4,598	\$4,157	\$6,318	\$2,654	\$7,341	\$8,745
Electrical Panel Change Out	\$100	\$167	\$63	\$134	\$171	\$271/hr 0.5-hour min.

Wrap-up

- The City is generally under-recovering for costs within the Health, Parks, Recreation, and Marine, and Development Services 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 program participation, being competitive, maximizing of revenues, 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, will return to City Council on May 18, 2021