AGENDA ITEM
CITY COUNCIL MEETING DATE – APRIL 25, 2017
BUSINESS ITEMS

DATE : April 13, 2017

TO : City Council

FROM : City Manager

SUBJECT : UPDATE ON CITYWIDE FEE STUDY

EXECUTIVE SUMMARY:
When the City Council adopted the 2013-15 budget, it was directed that staff would begin development of a budget stabilization work plan. The components of that plan were a Comprehensive Cost Allocation Plan, General Fee Study, and Revenue Options Analysis. Since 2013 NBS (Consultant) and City staff have been working to evaluate and analyze all user fees charged. The analysis and recommendations will be presented to the City Council in May 2017 for adoption of fees.

RECOMMENDATION:
Receive a presentation on the Citywide Fee Study and corresponding Public Outreach Plan, and provide direction to staff prior to bringing forward an updated fee structure for adoption.

BUDGET INFORMATION:
There are no current budget impacts based on this presentation.

GENERAL PLAN:
The overarching goal of the General Plan is Sustainability.

STRATEGIC PLAN:
Relevant Strategic Plan Issues and Strategies:

- Strategic Issue 3: Strengthening Economic and Fiscal Conditions
  - Strategy #4: Manage City finances prudently

CEQA:
As this is a presentation and no action is taking place, this item is not a project subject to the California Environmental Quality Act (CEQA) under Guidelines Section 15378 and 15060 (c).

BACKGROUND:
The City of Benicia charges user fees for a variety of specific services provided on behalf of a private citizen or group. The underlying assumption for the user fee is that costs of services benefiting individuals and not the entire community should be borne by the individuals receiving the service. Therefore, setting user fees is equivalent to establishing prices for services. Unlike private organizations, making a profit in providing services to the public is not a legally allowable objective for local governments. The City may only set fees at a level to recover the full cost of providing the service. However, in certain circumstances it is reasonable to set policies in establishing fees for certain services at a level that does not recover the full cost, resulting in General Fund subsidy.

During the 2013-15 budget meetings, City Council directed staff to work on several key initiatives that will help guide the City in developing a fiscally sustainable course for the long-term. The Fee Study is one of those initiatives. By taking a comprehensive look at the organization and utilizing a cost allocation plan and master fee study to better recognize the cost of various City services, staff can adjust fees to recover additional costs of providing services, which will allow the City to develop a work plan for the organization that accounts for less reliable revenues, outdated internal information systems, and rising costs due to significant broader changes at the state and federal levels.

The City has completed a cost allocation plan and is now finalizing the user fee study. Specifically, the goals of a cost allocation plan include acquisition of a documented and defensible plan that generates general/administrative allocation amounts that may be included in the City's annual budget, indirect/overhead rates, and fully-burdened hourly rates for City personnel. The goal of the user fee study is to identify the full cost of service in fee-related activities to facilitate the development of strategies/policy for recovery of those costs in user/regulatory fees.

This fee study is the foundation for improved cost recovery for grants and other reimbursements, and it also supports a full review and update of the City's general fee structure. The results and recommendations in the final fee models will likely lead to a robust public policy and financial discussion, illuminating an existing large general fund subsidy overall.

In October 2013, the City contracted with NBS to prepare a Comprehensive User Fees and Charges Study. NBS is an independent consulting firm serving local government agencies, focusing primarily on cost recovery mechanisms and supporting justification for various agency revenue streams including overhead cost allocation analysis and user and regulatory fees for a wide variety of local government programs and services. Their services are performed within the requirements and framework of California-specific statutes and guidelines, and NBS will provide the City with a defensible cost allocation plan and user fee study.

Summary of Study

Since 2013, NBS and City staff have been working to evaluate all fees charged. With significant staffing challenges, including changes to the project management team, there was a delay in completing the analysis. Since late 2016, fee models have been updated to reflect current staffing and levels of service.

NBS examined the fees for the following departments/divisions: Building, Engineering, Finance, Fire, Library, Planning, and Police. To get a true picture of the actual cost of providing services, analysis has been conducted to the individual fee level. With this comprehensive information, the City Council can look at recommended fees in relation to full (100%) cost recovery. In some instances, it may be more appropriate to establish fees due to our desire to keep the City's fees "user friendly" and comparable to those of other cities. The Finance Department collects several miscellaneous fees such as photocopying and special parking permits. These fees were reviewed and adjusted by internal staff.

The study process provided each department the opportunity to propose additions and deletions to their fee schedules, as well as rename, reorganize, and clarify fees imposed. Many such revisions were performed to better conform fees to current practices. These changes provide greater clarity and transparency. The structure of the existing cost recovery fees being charged by the City was fully examined. The consultants compared these fees with the actual costs of providing the services.

Based on the consultant's analysis, certain fees will be recommended to increase or decrease to reflect current program costs while other fees will remain unchanged due to the City's desire to be more "user friendly" or more comparable to other cities. As part of the study, a City-wide overhead rate will be calculated and included in the final model presented for adoption. Overhead costs include costs of all the central administrative operations of the City such as legal, city manager, human resources, finance, and information

technology. This provides an accurate view of the cost of direct services to the public, and is also required as part of grant reimbursements.

Organization Scan Report:
The 2015 Organization Scan Report provided a comprehensive look at external services, departmental organizational structures and practices, as well as potential modifications or alternative modes of operations that would deliver cost savings and/or efficiencies. The scan identified critical unmet needs and ways to recover costs and increase revenue. A comprehensive analysis of fees and appropriate increases is one way to recover costs and increase revenue. A few observations of the scan are:

1. *There are many critical unmet needs.* A snapshot of these impacting the General Fund was created by City staff, totaling approximately $8 million in ongoing costs and $6 million in one-time costs. Critical unmet needs in the enterprise funds total approximately $855,000 in ongoing costs and $8 million in one-time costs.

2. *Regularly analyzing costs and setting rates and fees to recover costs will be important to reduce the impact on services provided to individuals or groups.* The City's cost allocation study and fee study will set the foundation for cost recovery. Capturing costs for services that benefit a particular party or group can be a viable way to pay for some services. Regularly reviewing costs so that fees are set at a level to recoup costs is a way to ensure that the General Fund is not paying for services for which fees should be charged. Regularly evaluating costs and setting rates and fees is a best practice, as is having a clear policy statement about what rates and fees are intended to cover.

3. *Enhanced revenues would have the potential to affect the 10-year financial forecast.* A ten-year budget forecast was prepared by Management Partners in May 2014. The forecast showed that the General Fund would not have sufficient funds to maintain the current level of services based on projected baseline expenditures. The passage of Measure C has helped to address the budget deficit, providing added dollars to maintain City services and address critical infrastructure needs. Measure C also provides some relief to the General Fund in the near term, which offers an opportunity for more policy and community level discussions of creating a sustainable financial future.

4. *Revenue Comparisons*
    - Benicia relies on tax revenue for 85% of its General Fund revenue which is higher than the peer average of 75%. Benicia falls well below the peer average in transient occupancy tax revenues and

non-tax revenue as percentages of General Fund revenues. The peer average for transient occupancy tax as a percent of General Fund is 11% compared with Benicia's 1%. The current transient occupancy tax rate is 9%. In dollars, Benicia collected $340,000 as compared with a peer average of $4.5 million (as stated in the 2015 Organization Scan).

- Non-tax revenue for Benicia includes fees and charges for service, grants, and investment income. Benicia collected $4.5 million compared with the peer average of $7.65 million.

Highlights of Proposed Changes

When the final fee models are completed, several departments will have significant changes proposed. In some instances, these changes will be based on a change in fee structure, for example moving from valuation to flat fees. In other instances, the update to current processing times and an updated fully burdened hourly rate will result in significant proposed increases. The most significant changes will be to building permit and development fees, which are currently under recovering.

Next Steps

As the fee study is being finalized, staff will embark on a public outreach campaign to inform the community of the potential fee increases, and to educate them on the justification for these increases. A public outreach plan is attached. In addition, staff will prepare updates to the Benicia Municipal Code (B.M.C.) for any fees specifically referenced in the B.M.C. Once adopted, fees will not be effective until Fall 2017, which allows the City additional time for outreach to the community and code updates.

The final fee study will be brought before City Council on May 23, 2017 for approval and adoption of a new Master Fee Schedule (tentatively effective October 1, 2017).

Attachments:

1. Fee Study Public Outreach Plan
2. NBS Memo dated April 18, 2017