

# **CITY COUNCIL COMMITTEE**

## **POLICY DEVELOPMENT AND INTERNAL OPERATIONS**

**Mayor Laura Hoffmeister, Chair**  
**Ron Leone, Committee Member**

**5:30 p.m.**  
**Thursday, December 10, 2015**

**Wing A, Garden Conference Room**  
**1950 Parkside Drive, Concord**

### **ROLL CALL**

### **PUBLIC COMMENT PERIOD**

- 1. REVIEW** – City of Concord’s Cost Allocation Plan and User Fee Study. Report by Karan Reid, Director of Finance.
- 2. ADJOURNMENT**

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**REPORT TO POLICY DEVELOPMENT AND INTERNAL OPERATIONS  
COMMITTEE****TO THE HONORABLE MAYOR AND VICE-MAYOR:**

DATE: December 10, 2015

**SUBJECT: CITY OF CONCORD'S COST ALLOCATION PLAN AND USER FEE STUDY****Report in Brief**

In September 2013, a city-wide Cost Allocation Plan and User Fee Analysis project was initiated, based on City Council direction and with funds that were approved in the FY 2013-14 budget. This project proceeded in two phases. The first phase was to prepare an updated Cost Allocation Plan, which distributes general government and support service costs across the direct services provided to the public. This information is necessary because it is used when we seek reimbursement for various state and federal grants. This phase was completed in January 2015. The second phase is an analysis of the City's user fees to accurately represent the costs of providing each of the City's services and programs. From this analysis, the Committee and subsequently, the City Council, will be asked to consider a fee setting policy along with an updated fee schedule.

The objective of the December 10 Committee meeting is to provide a high-level overview of the work completed to date and to begin discussing the process of developing a fee setting policy. Attachment 1 contains the PowerPoint Presentation that will be presented at the December 10 Committee meeting.

**Background**

It is a best practice for cities to perform a comprehensive update of their cost allocation plan every 3-5 years and their fee schedules annually. A cost allocation plan is a document that calculates citywide overhead and administrative expenses. The overhead and administration cost is then apportioned to specific services and used to calculate the total city cost for certain city services. In addition, the plan provides an administrative/overhead rate that is used for grant and governmental reimbursements. The City of Concord last conducted a major update of its cost allocation plan in 2008.

A user fee review is a quantitative effort which compiles the full cost of providing governmental services and activities. There are two primary types of costs considered; direct and indirect costs. Direct costs are those which specifically relate to the activity in question, including the real-time provision of the service. An example of a direct cost is the salary and benefits expense associated with issuing a building permit. Indirect costs are those which support the provision of a service but cannot be directly or easily assigned to the activity in question. In the same example, an indirect cost would include the expenses incurred to provide an

office and the equipment for that individual to perform his or her duties, including (but not exclusive to) the provision of issuing a building permit.

Annually, Concord's Finance Department performs minor updates to the master (user) fee schedule based on changes in personnel costs and any significant changes to how services are provided. All proposed changes to the fee schedule are reviewed and approved by Council (typically during the annual or biennial budgeting process). The annual update does not include a comprehensive review of the methodology that is used to set each fee. That work is typically performed when an update to the cost allocation plan is completed.

Because a comprehensive review of the City's fees and user charges was being undertaken, the City Council did not update current fees when it adopted the Biennial FY 2016-17 and FY 2017-18 Operating Budget.

### **Discussion**

In support of the City Council's priority area of focus on long-term financial stability, the City of Concord released a Request-for-Proposals (RFP) for an independent consultant with expertise in municipal finance to update the cost allocation plan and conduct a review of the master (user) fee schedule. The City received six (6) proposals and after an evaluation process, NBS was selected to provide the requested scope of work. The City Council approved \$49,055 for this contract through the FY 2013-14 budget and subsequently amended it for an additional \$10,366, which provided for additional on-site meetings with the consultant as well as an update to the data to reflect update-to-date financial information.

The project began in September 2013 and was divided into two phases: update the City's Cost Allocation Plan and conduct a Comprehensive User Fee study. The Cost Allocation Plan work was completed in January 2015 and then the Comprehensive User Fee study commenced with the same NBS consultant. The Comprehensive User Fee Study included a thorough analysis of the total cost of providing services, including all applicable direct and indirect costs associated with specific services. This was a coordinated effort between all City departments and included many meetings between NBS and City staff to review status updates and provide direction.

The final report draft of the Comprehensive User Fee study is almost complete. The Committee will be asked to thoroughly review this report. Staff's suggested schedule is as follows:

- December 10, 2015: Consultant presentation of overview of the project and methodology to PDIO Committee
- January/February 2016: Subsequent PDIO Committee meeting to review and discuss Draft User Fee Report and review a draft fee recovery policy
- February/March 2016: Study Session with the full City Council to consider the User Fee Report and proposed fee recovery policy
- March/April 2016: Incorporate feedback received from Study Session and bring forward to a regular City Council meeting for formal adoption of User Fee Recovery Policy and updated Master Fee Schedule.

**Fiscal Impact**

The updated Cost Allocation Plan and comprehensive User Fee Review reports provide information as to the costs to provide various City services and programs. From this information, the Committee and ultimately, the City Council, may consider a fee setting policy that could decrease the reliance on General Fund revenues in the provision of certain services and programs.

**Recommendation for Action**

Receive the high level overview report from the City's consultant, provide feedback to staff and confirm the next steps for adoption of a Fee Setting Policy.



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Attachments:

1. Power Point Presentation on Cost Allocation Plan and User Fee Study

# CITY OF CONCORD COST ALLOCATION PLAN AND USER FEE STUDY

*Final Report Presentation  
December 10, 2015*



# Presentation Summary

- 2 years ago, Council approved a Cost Allocation and Fee Study to be prepared by NBS
- Present key issues framing the study
- Discuss user fee principles and practices
- Present basic costing methodology and approach
- Fee Recovery Policy Discussion
- Industry Trends
- Fee Comparison Survey
- Discuss Final Results
- Next Steps

# Important Notes About the Fee Study Process

- Critical data components for the study include: Time estimates, Activity / Volume data, Budget / Cost data.
- Iterative process: NBS has the experience to challenge and discuss estimates and assumptions. NBS and City department staff have all signed off and approved the final results.
- Remember: total cost of providing services and the “fee” or “price” for service are separate issues.

## Key Issues Framing This Study

- The presentation of a defensible methodology for calculating fees for service.
- The extent to which the City is properly recognizing fee-for-service revenue in accordance with various state laws such as GC §66014, and Prop 218.
- The collection of data to validate a reasonable cost of providing services.
- The recommendation to the City Council regarding cost recovery policies, fee study results and implementation.

# DEFINITIONS

## Cost Allocation Plan

- *Defines fair recovery of City administrative and support services costs*

## User Fee Study

- *Defines full cost recovery potential of individually-based services*

# DEFINITIONS (continued)

## Fee Policy

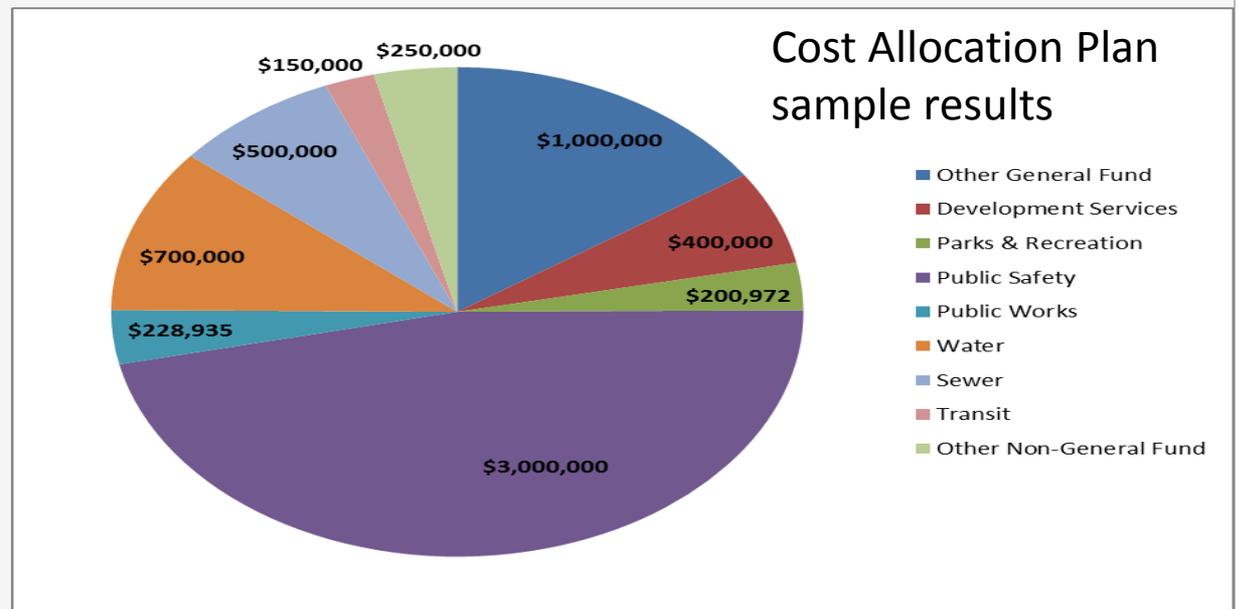
- *Provides guidelines for how and why the City sets its user fees*

## Fee Schedule

- *Defines the amount the City charges for each service (may not exceed cost and may be lower than cost)*

# SCOPE #1 – Cost Allocation Plan

1. Defines Citywide overhead services costs
2. Allocates costs fairly and equitably to service providing departments
3. Costs are recovered through Utility, Enterprise and Special Revenue Funds, User and Regulatory Fees, Other Agency support, etc.
4. OMB Cost Plan – Recover indirect costs from Federal and State grants



# COST ALLOCATION PLAN GUIDANCE

- ***Title 2, Part 200 Code of Federal Regulations (CFR) - (formerly OMB A-87)***: governs indirect cost rates and cost allocation plans.
- **“Review Guide for Public Assistance Cost Allocation Plans”**: guide to assist DCA negotiation staff in their review and approval of plans and amendments.
- **California State Controller Handbook of Cost Plan Procedures for California Counties**: This handbook was developed to assist CA agencies in the understanding and application of the cost principles established by OMB A-87

## SCOPE #2 – CITYWIDE USER FEE STUDY

- **User Fees:** Charges imposed for a service provided or required due to the request or action of an individual/entity
- **Regulatory Fees:** Charges imposed to recover costs associated with the City's power to govern certain activities

- ✓ Cost recovery opportunities
- ✓ Revenues implemented by City Council
- ✓ NOT: Taxes, Fines, Development Impact Fees, Utility Rates, etc.

# USER FEE STUDY GUIDANCE

- ***Proposition 218 Section 6.2(b)2***
  - ✓ “Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed”
  - ✓ Must Pair Revenues to Costs - *What are the Costs?*
- ***CA Government Code §66014(a)***
  - ✓ “Those fees may not exceed the estimated reasonable cost of providing the service for which the fee is charged”
  - ✓ Focus on “Estimated Reasonable”
- ***Proposition 26***
  - ✓ Article XIIC§1(e)(3) Inspections and Regulatory Permits are exempt ...however are still limited to the local government’s reasonable costs.

# FEE STUDY GOALS

- Understand the full cost of providing services
- Develop a Master Fee Schedule
- Develop and Document Cost Recovery Policy

- CED - Planning
- CED - Engineering
- CED - Building
- Police
- Administrative Fees
- Parks and Recreation

# Fees Are Part of Financial Stability

Development of a cost recovery policy helps:

- Attain revenue stability
- Raise awareness about costs
- Provide necessary and basic services
- Enhance service delivery
- Build confidence in local government
- Fiscal Sustainability
- Clearly defines what programs and services the community chooses to subsidize

# Benefits of Realigning User Fees

- Reduce General Fund subsidy
- Realize revenue for services reduced or eliminated:
  - ✓ Public Safety Services
  - ✓ Recreation Programs for youth & seniors
  - ✓ Street Maintenance
- Fund departments efficiently
- Set realistic expectations for cost recovery

# User Fee Study Project Approach

- Establish Goals and Objectives for the study.
- Define current and potential fees for service.
- Gather input from staff at many levels in the organization.
- Approach is structured to determine the “total estimated and reasonable cost of providing services.”
- Analyze the total costs and revenues associated with services.
- Check results and validate data for total hours available compared with total hours consumed and revenue generated verses revenue received.
- Review and revise results at the Department and City Management levels.
- Present results to City Council.
- Eliminate obsolete fees.

# Fee Study Methodology - Defining “Total Cost”

## COST COMPONENT

## CONTENTS

DIRECT

Departmental Budget: Salaries and Benefits, Services and Supplies

INDIRECT

Departmental, and City-wide Overhead

CROSS-  
DEPARTMENTAL

Review by other departments such as Community Development, Public Works & Police, etc.

PLANS, POLICIES AND  
PROCEDURE  
MAINTENANCE AND  
UPGRADE

On-going and projected technology costs, General Plan update and maintenance, Imaging costs, etc.

# Fee Study Methodology

Cost is computed by:

$$\begin{array}{r} \text{Productive Hourly Rate} \\ \times \text{Hours to complete the task} \\ \hline = \text{Cost} \end{array}$$

- The Key is the “***correct identification***” of the underlying components of rates and hours that gives the analysis structure and validity.
- Cost calculations underwent draft iteration reviews and revisions until City staff and NBS consultants were confident with results.

# Fee Schedules and Policy Level Factors

## Select Fee Structure

Flat Fees

Variable Fees Based on  
Project Characteristics

Variable Fees Based on  
Actual Time Tracked (with  
Deposits Managed as  
Needed)

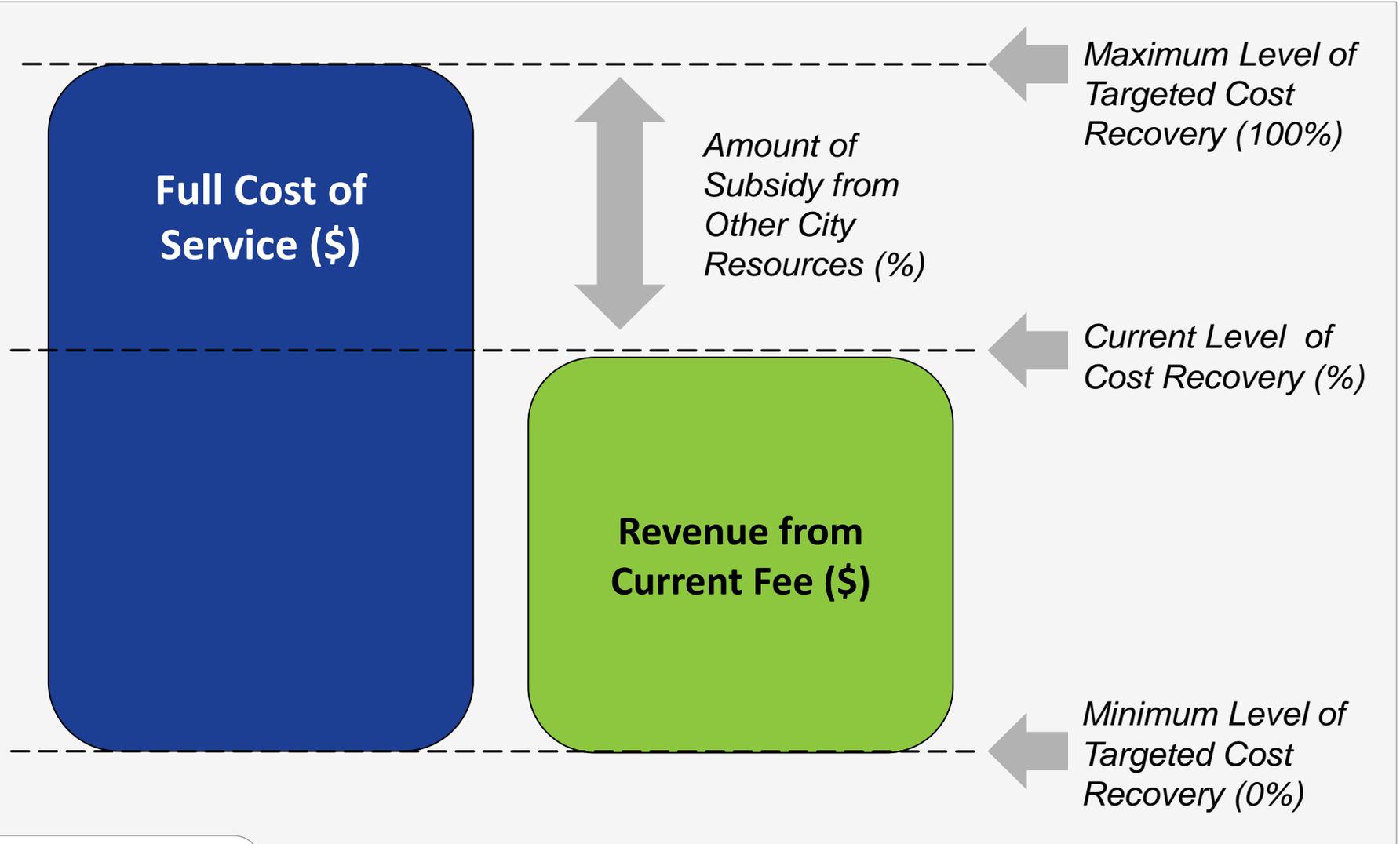
## Apply Cost Recovery Objectives

Full Cost Recovery

Fiscal Sustainability?  
Specific Private Benefit?  
Economic Development?  
City Goals / Priorities?  
Behavior Modification?  
Compliance Concerns?  
At-Large Public Benefit?

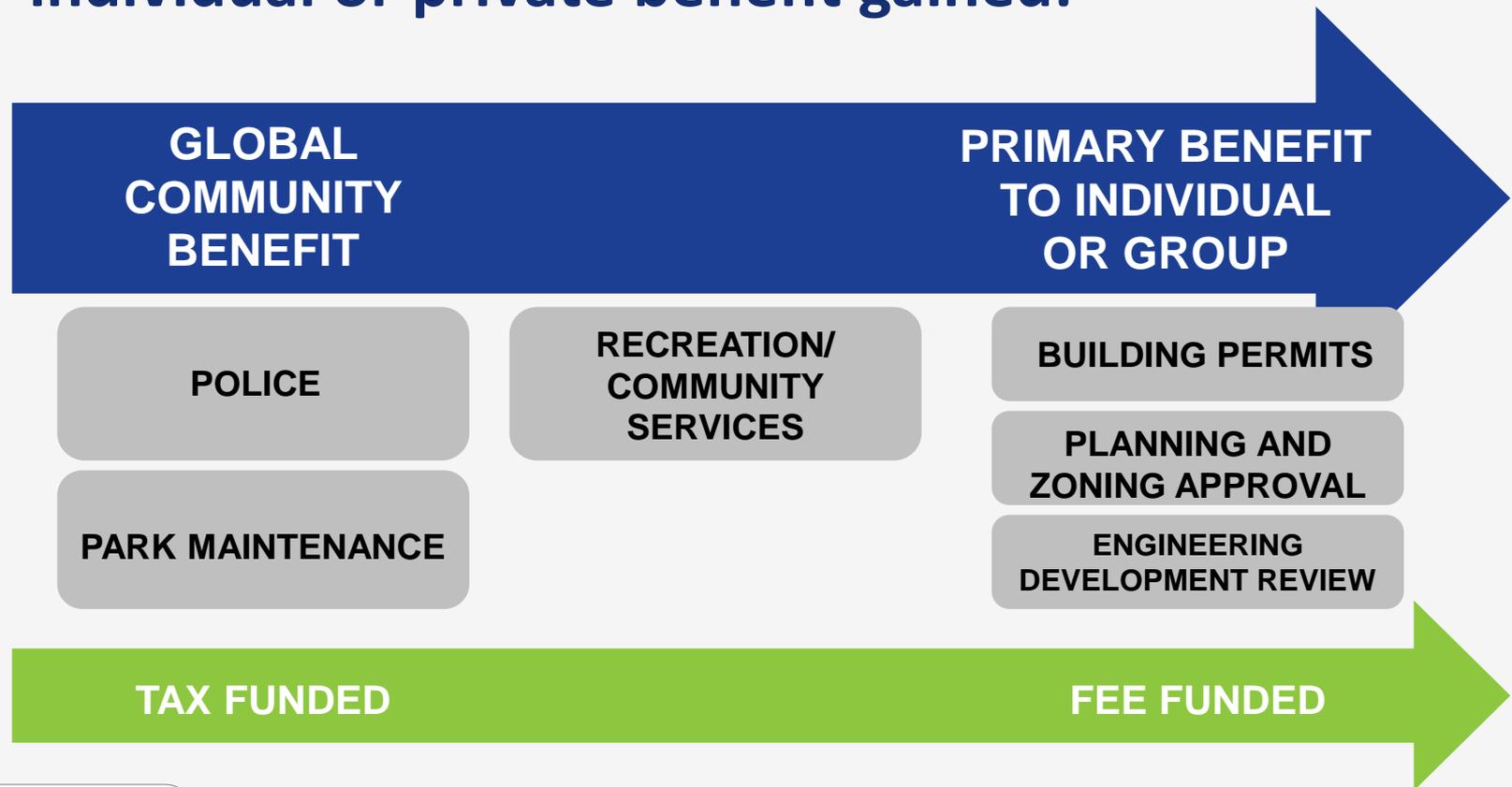
General Fund Subsidy

# Cost Recovery Policy And Fee-Setting



# Fee Principles, Philosophy and Policy

- Fees should be assessed according to the individual or private benefit gained:



# Policy Considerations

- Main concerns of:
  - ✓ *Elected*
  - ✓ *Stakeholders*
- Reasons for  $\leq 100\%$  cost recovery
  - ✓ *Fiscal Sustainability*
  - ✓ *Specific Private Benefit*
  - ✓ *Economic Development*
  - ✓ *City Goals / Priorities*
  - ✓ *Behavior Modification*
  - ✓ *Compliance Concerns*
  - ✓ *At-Large Public Benefit*

# Industry Trends – *Fee structures*

- **Building**
  - ✓ Valuation based fees and Cost per square foot models utilized. Flat fees for small / frequent projects; fee simplification; easy for public to understand
- **Engineering**
  - ✓ Public/ Private Improvement Plan Review & Inspection - Migrating away from valuation based fees to a tiered structure of flat fee or deposit

# Industry Trends– *Fee Structures*

- **Planning**
  - ✓ Deposit with actual cost for large scale projects with great variance or infrequency, such as EIR, Specific Plan or General Plan; Flat fees for others
- **Cross Departmental Support**
  - ✓ Cost recovery for all in the development review process (*as shown in CED schedule*)

# Industry Trends - General Plan Maintenance / Update

- General Plan, Master EIR are recoverable in user fees under Government Code § 66014(b)
- Common practice to adopt a surcharge on top of building/planning permits
- Example: Annual cost to update these documents is approximately \$583,594

Cost Category	Total Annualized Cost	100% Recovery	75% Recovery	50% Recovery	Current Fee - 40% Recovery
Contracted Services (\$1,500,000 over 10 years)	\$ 150,000	\$ 150,000	\$ 112,500	\$ 75,000	\$ 60,000
Staff Time (Average Per Year)	\$ 433,594	\$ 433,594	\$ 325,195	\$ 216,797	\$ 173,438
<b>Total</b>	<b>\$ 583,594</b>	<b>\$ 583,594</b>	<b>\$ 437,695</b>	<b>\$ 291,797</b>	<b>\$ 233,438</b>
Building Valuation of New Construction or Additions (FY 13/14)		\$94,369,169	\$ 94,369,169	\$ 94,369,169	\$ 94,369,169
<b>General Plan Maintenance Surcharge</b>		<b>0.62%</b>	<b>0.46%</b>	<b>0.31%</b>	<b>0.25%</b>

SFR Building Permit (3,370 s.f, \$300,000) – General Plan Maintenance fee w/ 50% recovery target:  
 Current fee - \$750 (@ .25%)

# User Fee Study – Comparison Survey

- Often policy makers request a comparison of their jurisdiction's fees to surrounding communities with similar operations.
- The purpose of a comparison is to provide a sense of where Concord's fees fall in the fee spectrum and is used for informational purposes only.
- Comparative fee surveys **do not provide information about the cost recovery policies or procedures inherent in each comparison agency.**
- Overall, where a comparison of fee structures is possible, Concord tends to be in the middle range of fees for the cities surveyed.
- Agencies surveyed include: Walnut Creek, Brentwood, Antioch, Pittsburg and Dublin.

# Summary Results for Current Fee Related Services

Department / Division	Estimated Annual Current Fee Revenue	Eligible Cost Recovery from User / Regulatory Fee Revenue	Annual Cost Recovery Surplus / (Deficit)	Current Cost Recovery Percentage
CED Planning	\$ 506,600	\$ 1,096,244	\$ (589,644)	46%
CED Planning - General Plan Surcharge	\$ 233,438	\$ 583,594	\$ (350,156)	40%
CED Engineering	1,044,000	1,039,821	4,179	100%
CED Building	2,761,852	2,764,001	(2,149)	100%
Police	124,252	99,397	24,855	125%
Parks and Recreation	4,117,223	7,354,089	(3,236,866)	56%
<b>Total</b>	<b>\$ 8,787,365</b>	<b>\$ 12,937,146</b>	<b>\$ (4,149,782)</b>	<b>68%</b>

- Results identify the current cost recovery percentage at 68% with an annual General Fund subsidy is \$4.1 Million.
- The Fee Study analysis allows the City the information to re-align the fees to collect the “maximum” full cost, based on the City’s policy recovery goals.

# Fee Study Best Management Practices:

- Comprehensive Fee Study every **3 - 5 years**
- More frequent study during:
  - ✓ economic downturn
  - ✓ budget and staffing changes
  - ✓ process improvements
- Annual increase mechanism (CPI vs. labor cost index)
- Combined Master Fee Schedule
- Established and documented **Cost Recovery Policy**

## Recap :

- NBS was contracted to prepare a Cost Allocation Plan and User Fee Study
- Final Report draft is nearly complete
- Presentation today provides an overview of background and methodology on cost plan and fee study

## Next Steps:

- Policy Development and Internal Operation (PDIO) Committee to review detailed Final Report on User Fees study and draft fee setting policy at a subsequent meeting
- Review and discuss User Fee Study results with Council at future meeting(s)
- Develop and Adopt a formal, documented cost recovery policy for user fees
- Council to Adopt Master Fee Schedule (MFS)

## Conclusion:

- Generally, the City's fee recovery percentage is good at 68%
- Best practice is to adopt a fee setting policy

# Questions And Comments

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