



## **CITY OF MENIFEE**

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SUBJECT: Draft Comprehensive Cost of Services/User Fee Study

MEETING DATE: August 17, 2022

TO: Mayor and City Council

PREPARED BY: Jizelle Sandoval, Financial Analyst

REVIEWED BY: Margarita Cornejo, Deputy Finance Director

APPROVED BY: Armando G. Villa, City Manager

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### **RECOMMENDED ACTION**

1. Review and provide comments on the draft Comprehensive Cost of Services (User Fee Study) and recommend submittal for a public hearing and resolution approving the User Fee Update at the September 21, 2022, City Council Meeting.

### **DISCUSSION**

A User Fee Study is conducted to accurately, fairly, and reasonably determine the full cost of providing services to the individuals and businesses within the community, such as plan check, inspection, permitting and other development-related services. The amount of revenue generated (fee amount) may not exceed the estimated reasonable cost of providing the services, and with the goal of making the City “whole” as to costs.

The City’s current fees are not structured to make the City “whole” as to costs. The current fee structure has an average recovery rate of 73%, which is to say that the City is under-recovering its costs to provide service. The average of 73% is across three service areas, and individually the cost recovery for Administration is 52%, Community Services is 9% and Development Related is 91%, as indicated in Table 1.

### **Background**

Upon incorporation, the City of Meniffee adopted the County’s user fee schedule and portions have been updated over time as follows:

- 2013 – comprehensive allocation plan and user fee study updated
- 2014 – addition of Community Services user fees
- 2017 – update to Planning, Engineering, Building & Safety, and Fire Fees
- 2020 – addition of Meniffee Police department fees

Based on these updates, the City engaged the Matrix Consulting Group to perform a comprehensive study analyzing the cost-of-service relationships that exist between fees for service activities in the following areas: City Clerk, Finance, Community Services, Code Enforcement, Police, Fire, Building, Planning and Engineering. The results of this study provide a tool for understanding current service level, the cost and demand for those services, and what fees for service can and should be charged.

The User Fee Study was taken to the Finance Committee on June 21, 2022. After the Finance Committee meeting, staff shared the study with the Building Industry Association (BIA), and presented to the Developer Stakeholder Group. The Finance Committee recommended a workshop for City Council.

### Analysis

The methodology employed by the Matrix Consulting Group is a widely accepted “bottom up” approach to cost analysis, where time spent per unit of fee activity is determined for each position within a department or program. Once time spent for a fee activity is determined, all applicable City costs are then considered in the calculation of the “full” cost of providing each service. The overview of types of costs applied in establishing the “full” cost of services provided by the City include both direct and indirect costs.



- **Direct Costs Include:** Fiscal year 2022 budgeted salaries, benefits, and allowable expenditures.
- **Indirect Costs Include:** Division, departmental, and citywide administration/management, and clerical support.
- **Total Cost** is equal to the fees at 100% recovery rate.

The work accomplished by the Matrix Consulting Group in the analysis of the proposed fees for service involved the following steps:

- Departmental Staff Interviews
- Data Collection
- Cost Analysis
- Review and Approval of Results with City Staff

### Summary for Results

A comparison of the fiscal year 2021/22 fee-related budgeted expenditures with fee-related revenue generated in fiscal year 2020/21 shows that the City is under-recovering its costs by approximately \$3.3 million or a recovery rate of 73%. The following table shows by major service area / discipline, the revenue collected, the total annual cost, the resulting annual surplus / deficit, and the resulting cost recovery.

**Table 1**

Service Area	Total Annual Revenue	Total Annual Cost	Annual Surplus/ (Deficit)	Cost Recovery %
Admin/Miscellaneous	\$126,232	\$243,368	(\$117,135)	52%
Community Services	\$225,203	\$2,638,874	(\$2,413,671)	9%
Development Related	\$8,498,703	\$9,314,229	(\$815,526)	91%
<b>TOTAL</b>	<b>\$8,850,138</b>	<b>\$12,196,470</b>	<b>(\$3,346,332)</b>	<b>73%</b>

As shown in Table 1, the City's largest source of General Fund subsidy is related to Community Services at \$2.4 million, which is common due to the general community benefit that it provides. The next largest General Fund subsidy at approximately \$816 thousand is in relation to development-related activities. If Community Services is excluded, then the overall General Fund subsidy for the City decreases from \$3.3 million to approximately \$933 thousand (admin/miscellaneous and development related service areas) with a cost recovery level of 90%. The subsidy in development is related to current planning applications, which require extensive city staff time and effort. The other component of the deficit is in relation to internal cross-departmental support for Building, Planning, and Engineering. Implementing the full cost recovery fees and updated departmental support fees for Planning and Engineering in relation to Building fees will help the City to bridge this deficit.

The detailed documentation of the Study shows an over-collection for some fees (on a per unit basis), and an undercharge for most others. The results of this analysis provides the City with guidance on how to right-size their fees to ensure that each service unit is set at an amount that does not exceed the full cost of providing that service.

### **Development Services Surcharges**

There are two typical surcharges proposed as part of the development review process – General Plan Maintenance and Technology fee. The City of Menifee currently charges a General Plan Maintenance fee as part of the building permit phase but does not assess a separate Technology Fee. The following subsections discuss the calculation of the General Plan Maintenance Fee and a separate Technology Fee.

#### *General Maintenance Fee*

The City of Menifee currently assesses a General Plan Maintenance Fee as part of its building permit process. The fee is meant to account for updates to the general plan, zoning ordinance, housing elements, and other long-range planning activities that are part of the larger General Plan. This is a fairly typical fee charged by many jurisdictions. The City of Menifee currently charges this fee as a percentage of the building permit fee, at the time of building permit submittal. The concept behind charging it during the building permit phase is that any development project, which gets to that phase, makes enough of an impact to require the need for an update to the Zoning Code or the General Plan.

The project team worked with staff in the Planning Division to estimate the annual percentage of time spent by staff as it relates to long-range planning. In addition to internal staff cost there are contracted costs associated with updates to the General Plan and Zoning Code. The City's

current fee is 5% of the building permit and the study calculates the fee at 9%. Therefore, staff is recommending full cost recovery at 9% of the building permit.

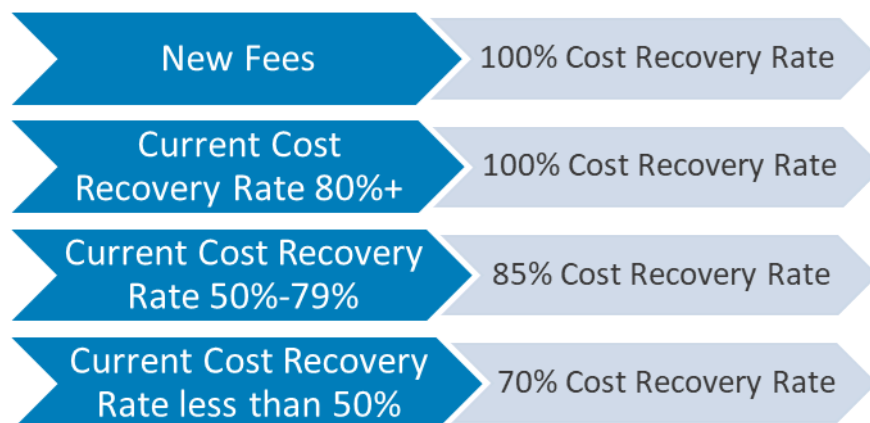
#### *Technology Surcharge Fee*

The City does not currently collect a separate Technology Fee. The Technology Fee allows the City to support the costs associated with the City's permitting system, staff time for managing the systems, acquiring the system, mobile devices used for permitting, etc. It is important to note that this cost has traditionally been incorporated as an overhead line item into the development department application fees. For greater transparency, as well as the ability to ensure dedicated use of funding, these costs are being extracted from the indirect costs and being evaluated as a separate surcharge. The study calculates the fee at 5.7% of the permit fee and staff is recommending 5% of the fee.

#### **Staff Recommended Fees**

The staff recommended fees were based on current fees, industry norms, economic development strategy, and parity with surrounding cities. The majority of the proposed fees assume full cost recovery, which will result in additional revenue and also limit the amount of General Funds used to subsidize user fees. Also, far more equity between taxpayers and fee-payers, as well as fairness between property-related and non-property related services could be secured, assisting in the City's continued financial stability into the future. The staff recommended User Fees are identified within Attachment 2, Column C. The current fees are listed in Column A and the total City costs to provide the service are in column B, of Attachment 2.

Most of the development related fees (planning, building, fire, and engineering) have proposed a cost recovery rate based the current fee. Based on staff analysis, if the fee is new or if the current recovery rate is over 80% then staff is recommending 100% cost recovery rate. If the current cost recovery rate is between 50-79% then staff is recommending 85% cost recovery rate. If the current cost recovery rate is less than 50% then staff is recommending 70% cost recovery rate.



As costs associated with the provision of services fluctuate over time, a significant element in the development of any fee schedule is that it has the flexibility to remain current. Therefore, it is

recommended that the fees include an inflationary factor to annually increase or decrease the fees. The most commonly used inflator is the Consumer Price Index (CPI) as it is widely well known and accepted.

### **FISCAL IMPACT**

The majority of the proposed fees assume full cost recovery, which will result in additional revenue and also limit the amount of General Funds used to subsidize user fees. Also, far more equity between taxpayers and fee-payers, as well as fairness between property-related and non-property related services could be secured, assisting in the City's continued financial stability into the future.

The proposed fees will also adopt Consumer Price Index adjustment for All Urban Consumers – Riverside-San Bernardino-Ontario, CA (CPI), as of December of the preceding (calendar) year and made effective for July 1 each fiscal year, allowing for automatic annual adjustments, including increases and decreases.

### **ATTACHMENTS**

1. PowerPoint Presentation
2. Report on Cost of Services (User Fee) Study – Draft
3. Cost of Services (User Fee) Staff Recommended Fees