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City Council Meeting Agenda Report

Subject: Overview of Citywide User Fee Update and City Council Discussion
Date: February 7, 2023
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Approved by: Javier Carcamo, Finance Director
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RECOMMENDATION

Receive agenda report and presentation on the Citywide User Fee Update and provide direction to staff regarding the updated Citywide fee structure for adoption at a future City Council meeting.

PRIOR ACTION/VOTE

On May 3, 2016, the City Council adopted Resolution No. 16-3552, adopting the Fiscal Year 2016/17 Fee Schedule (Vote: 4-0, Long absent).

On January 16, 2018, the City Council adopted Resolution No. 18-3844, adopting the Fiscal Year 2018/19 Fee Schedule (Vote: 5-0).

CITY COUNCIL GOAL

Maintain a high-performing organization that values fiscal sustainability, transparency, accountability, and organizational efficiency.

BACKGROUND

At the City Council meeting on February 7, 2023, staff will provide an overview presentation of the recent Citywide User Fee Update project, including the purpose of the study, methods used to review and calculate User Fees, and recommended User Fee adjustments. The purpose of this presentation is for the City Council to ask questions and provide feedback and direction to staff so that the proposed list of User Fees can be finalized for adoption by the City Council at a meeting in the near future, for implementation as of July 1, 2023.

Since the adoption of Proposition 13 in 1978, a series of State legislation has established limitations on local government revenues. Due to the enactment of such legislation, cities have little control and few successful options to increase or generate new revenues, which are needed to cover the cost of providing services. One mechanism by which local governments may recoup a portion or all of the cost associated with providing services is through a user fee.

Local governments adopt user fees to offset the cost of providing a service or program to individuals or companies. The principle of a user fee is that the costs of providing services that benefit individuals or



companies should be borne by the individuals or companies receiving the service, and not the entire community. Therefore, the primary objective of a user fee is to recover a portion, or as much as (but no more than) 100% of the cost to provide the service, from the individuals or companies that benefit from the services being provided.

Unlike the private sector, local governments cannot establish user fees above their cost to generate a profit. Hence, the City of Murrieta may only set fees at a level to recover the full estimated cost of providing the service.

In certain circumstances, the City Council may make a policy decision to determine that it is reasonable to set fees for certain services at a level that does not recover the full cost, resulting in a General Fund subsidy. Historically, the City of Murrieta updates and adopts its User Fee Schedule for City services every year however, the User Fee Schedule was last updated and adopted on January 16, 2018 due to staffing constraints. The City contracted with Willdan Financial Services to conduct a comprehensive user fee study and full Cost Allocation Plan (CAP) to assist the City in determining appropriate fee levels for the various services provided by the City. It is considered a financial best management practice for local governments to periodically review and update their User Fee Schedules.

User Fee Study Summary

Study Objective

Given the limitations on raising revenue in local government, a User Fee Study is a very cost-effective way to understand the total cost of providing services and to identify potential fee deficiencies. The analysis of the cost of providing a service is required whenever a fee update is contemplated. The total cost of each service included in this analysis is based on recovering of the full cost of providing City services, including direct salaries and benefits of City staff, direct departmental costs associated with providing a specific fee-based service, and indirect costs for central service support. In addition, Willdan established a series of additional objectives, including:

- Developing a rational basis for setting fees;
- Identifying the proposed subsidy amount, if applicable, for each fee in the model;
- Ensuring compliance with State law;
- Developing an updatable and comprehensive list of fees; and
- Maintaining consistency with City policies and goals.

Scope of the Study

Completion of a User Fee Study requires extensive interdepartmental collaboration and staff input from all departments. The study process provided each department with the opportunity to propose additions and deletions to their existing fee schedules, as well as the opportunity to rename, reorganize, and clarify fees currently being charged. Many such revisions were performed to better conform fees to current procedures and practices. These changes provide greater clarity and transparency. The Scope of the study encompasses a review and calculation of all user fees charged by the following Murrieta departments and fee groups:

- Miscellaneous City-Wide Fees;



- Business Licenses;
- Community Services District;
- Library;
- Parks & Recreation;
- Code Enforcement;
- Building & Safety;
- Planning;
- Public Works;
- Fire;
- Police; and
- Geographic Information Systems (GIS).

Study Approach and Methodology

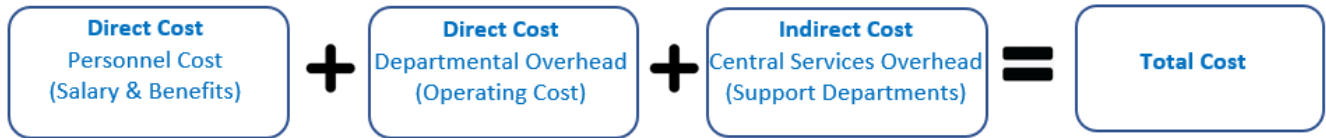
The basic concept of a User Fee Study is to determine the “reasonable cost” to provide each service for which the City charges a user fee. As explained above, the full cost of providing a service may not necessarily become the City’s fee, but it serves as the objective basis for the maximum amount that may be collected.

To determine the “reasonable cost” of providing services, the study includes completing the CAP, which is a required component to calculate the Fully Burdened Hourly Rates (FBHRs). The CAP utilizes a comprehensive analysis to determine the appropriate allocation of costs from central service departments to the operating departments. The primary objective of a CAP is to allocate costs from departments that provide services internally to operating departments that conduct the day-to-day operations necessary to serve the community. Central services includes internally-focused departments/divisions, such as Finance, Human Resources, Information Technology, and City Clerk, which provide support to departments city-wide but do not provide many direct services to the public. The CAP identifies three types of costs that, when combined, constitute the fully burdened cost of a service. Costs are defined as direct labor, including salary and benefits; departmental overhead costs; and the City’s central services overhead, where departmental and central service overhead costs constitute support costs.

These costs are further defined on page 7 of the User Fee Study (Attachment 1), and Appendix A lists each department’s overhead rate.

The total cost of each service included in this analysis is primarily based on the FBHR determined for City personnel directly involved in providing services. The FBHRs include not only personnel salary and benefits, but also any costs that are reasonably ascribable to personnel. The cost elements that are included in the calculation of fully burdened rates are:

- Salaries & benefits of personnel involved;
- Operating costs applicable to fee operations;
- Departmental support, supervision, and administrative overhead; and
- Indirect City-wide overhead costs calculated through the Cost Allocation Plan



When appropriate, the FBHRs are used in conjunction with time estimates to calculate a fee’s cost based on the personnel and the amount of time involved in providing each service. Appendix B of the User Fee Study lists the calculated FBHR of each applicable staff position.

User Fee Study Results

The cost recovery detail analysis by department and fee group is presented in detail in Appendix C of the Study, starting on page 30. A narrative summary of the most significant fee changes, also by department and fee group, can be found starting on page 12 of the User Fee Study. The table below summarizes the results of the analysis.

Cost Recovery Analysis by Department/Fee Category

Department/Fee Category	No. of Fees Added	No. of Fees increased	No. of Fees Decreased	No. of Fees with No Changes	Avg. Estimated Fee Increase
Miscellaneous City-Wide Fees	1	11	2	24	1%
Business License	0	7	3	2	8%
Community Services District	11	8	0	0	122%
Library	18	17	0	8	12%
Parks & Recreation	94	51	3	33	27%
Code Enforcement	4	6	0	3	17%
Building & Safety	7	564	6	31	15%
Planning	2	41	3	21	16%
Public Works	22	50	13	105	3%
Fire	44	226	3	3	25%
Police	1	13	1	15	22%
Geographic Information Systems	0	1	0	1	10%

Reasons for Cost Increases/Decreases Compared to Current Fees

Within the fee tables in Appendix C, the differences are identified between the full costs calculated through the Study and the fee levels currently in effect. The reasons for differences between the two can arise from several possible factors, including:

- Previous fee levels may have been intentionally set at levels less than full cost based on City Council policy decisions at that time;



- Staffing levels and the positions that complete the service activities for which the fee is charged may vary from when the previous costs were calculated;
- Personnel and operating costs have increased since the last study;
- Costs that this Study identified as part of the full cost of services may not have been accounted for in a previous study, such as
 - Departmental overhead and administration costs;
 - Vehicle and Facility Maintenance support costs;
 - Indirect overhead from the Cost Allocation Plan; and/or
- Changes in processes and procedures within a department or the City.

Annual Updates

Conducting a comprehensive User Fee Study for fee-related services and costs annually would be staff intensive and costly. The general rule of thumb for comprehensive User Fee analyses is to undertake such a Study every three to five years. This allows jurisdictions to ensure they account for organizational changes such as staffing levels, cost of doing business, process efficiencies, code or rule changes, and technology improvements. As a result, developing annual update mechanisms allows jurisdictions to maintain current levels of cost recovery while accounting for increases in staffing or expenditures related to services. Therefore, it is recommended that the City include an inflationary factor in the resolution adopting the fee schedule to allow the City Council, by resolution, to increase or decrease the fees annually. The City may employ many different inflationary factors. The most commonly used index is the Consumer Price Index (CPI), which is widely known and accepted. Another index for consideration is the Personnel Cost factor, which is primarily based on staff annual salary adjustments and other operating cost increases.

Notifications

On January 31, 2023, in accordance with the notification requirements contained in California Government Sections 66000-66025, the City of Murrieta provided the Building Industry Association (BIA) of Southern California - Riverside County Chapter with a draft of the proposed Fiscal Year 2023/24 Fee Schedule.

Staff Recommendation

Based on the results of the user fee analysis, certain fees will be recommended to be added, removed, increased, or decreased to reflect current program costs, while other fees will be recommended to remain unchanged due to the City's desire to be more "user friendly" or more comparable to other cities. It is recommended that the current fee schedule be updated based on the results of the User Fee Study to be discussed at an upcoming public hearing.

With this comprehensive report on the process undertaken, City staff is seeking City Council comments or feedback on the following items:

- Changes to the proposed User Fee calculations; and
- Which inflationary factor to include to allow the City Council to update User Fees annually.



Based on City Council feedback on the proposed User Fees and direction at the meeting on February 7, 2023, staff will bring back the finalized User Fee recommendations for adoption at a future City Council meeting, for implementation as of July 1, 2023.

FISCAL IMPACT

There is no fiscal impact associated with the delivery and presentation of this report. The consulting work described was previously approved and budgeted in the current FY 2022/23 operating budget. Subsequently, adjusting City fees toward full cost recovery will positively impact General Fund revenue, with the amount dependent on the level of service activities.

ATTACHMENTS

1. User Fee Study