

2008

**FULL COST ANALYSIS OF
USER FEE SERVICES**

for



FINAL REPORT

October 24, 2008

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EXECUTIVE SUMMARY

The City of Menlo Park engaged *Wohlford Consulting* to conduct an objective analysis of the full costs incurred by the City in support of various activities for which the City charges user fees. The consultant used a unit cost build-up methodology to identify the full cost for individual fee activities. By projecting the annual volume for each fee (number of fee transactions), the study also identified the annual cost of the services and the potential annual revenue for the fee activities at full cost levels. The following table shows a summary of these results:

Summary Results for All Departments

| Department / Division | FULL COST: Annual Cost of Fee-Related Services | CURRENT REVENUE: Projected (annual) @ Current Fees | CURRENT SURPLUS / (SUBSIDY): (Full Cost - Current) | CURRENT COST RECOVERY RATE (Current / Full Cost) |
|---------------------------|---|---|---|--|
| Building | \$ 2,178,000 | \$ 2,254,000 | \$ 76,000 | 103% |
| Community Services & Rec. | \$ 7,202,000 | \$ 4,067,000 | \$ (3,135,000) | 56% |
| Engineering | \$ 1,217,000 | \$ 397,000 | \$ (820,000) | 33% |
| Planning | \$ 1,393,000 | \$ 650,000 | \$ (743,000) | 47% |
| Police | \$ 312,000 | \$ 153,000 | \$ (159,000) | 49% |
| TOTALS: | \$ 12,302,000 | \$ 7,521,000 | \$ (4,781,000) | 61% |

The current cost of City fee activities included in this study is approximately \$12.3 million annually. Given the current fee levels charged by the City, the potential annual revenue (assuming a consistent activity level) is only \$7.5 million, which represents a current annual General Fund subsidy of approximately \$ 4.8 million and a cost-recovery ratio of 61% overall. In other words, if the City set fee levels at the full cost of each service, (100% cost-recovery) the City could reap an additional \$ 4.8 million in additional revenue from fee activities.

The reality of the local government fee environment, however, is that significant increases to achieve 100% cost recovery are often not feasible, desirable, or appropriate—particularly in a single year. In recognition of this situation in Menlo Park, City staff will develop a series of recommended fees that will likely result in less than full cost recovery in the first year. The annual amount of revenue from the recommended fees and the actual cost-recovery ratio will not be known until City staff prepares their analysis and recommendations to the City Council.

The details behind these summary figures are contained in the body of this report and the appendices.



PROJECT BACKGROUND

Purpose and Intent

In the City of Menlo Park's never-ending quest to manage resources wisely and keep up with service demands, the City needs a variety of tools to make sure that it has the best information and the best resources to make good decisions, fairly and legitimately set fees, affect revenues, maintain compliance with state law and local policies, and meet the needs of the City administration and the public. Given the limitations on raising revenue in local government, the City recognized that a User Fee Study is the most cost-effective way to understand your total cost of services and identify potential fee changes and revenue impacts.

A User Fee Study may be thought of as simply a tool to raise revenues. This is, of course, the most common perception of fee payers in industry groups and the public, and revenue enhancement is often the primary goal of local governments that conduct fee studies. However, a quality User Fee Study is truly much more than just a revenue tool. This type of cost study can also become a management tool, with a variety of information and perspectives that can help the City better understand its operations and financial circumstances. The study process, consultant input, and results have a variety of other important outcomes, since it can also:

- Calculate specific fee subsidies and overall revenue impacts of current and potential fees;
- Identify new fees, cost recovery strategies, and other revenue opportunities for the City;
- Fairly and appropriately distribute indirect and overhead costs;
- Clearly identify the cost of administrative activities to customer departments and programs;
- Create an enhanced internal understanding of administrative programs and support activities;
- Allow the City to compare its costs with neighboring jurisdictions;
- Quantify productivity and staffing shortages;
- Measure the distribution of staff effort of specific positions to individual tasks and service areas, which can help managers more effectively prioritize work tasks;
- Ensure that the City's fees are consistent with state laws and interpretations;
- Make your fees strongly defensible to challenges from the public, special interest groups, your Council, and the courts; and
- Foster a better understanding of workflow and staff involvement in specific services and activities.

With these benefits in mind, the City engaged *Wohlford Consulting* to conduct an objective analysis of the full costs incurred by the City in support of various activities for which the City charges user fees: a User Fee Study. The principal goal of the consultant study was to demonstrate and help the City administration understand the full cost of the services they



provide. In addition, the consultant established a series of additional objectives for the study and the City, including:

- ✓ Establish Objective and Transparent Fee Information
- ✓ Develop Insight and a Rational Basis for Setting Fees
- ✓ Understand Subsidies
- ✓ Balance Revenues
- ✓ Understand the Context and Principles of User Fees
- ✓ Enhance Fairness and Equity
- ✓ Ensure Compliance with State Law

The City can use the study results to better understand its true costs and as the basis for making informed policy decisions regarding the most appropriate charges (fees), if any, to levy against individuals and organizations that require discretionary services from the City.

Scope of the Study

The scope of this study encompasses a review and calculation of the user fees charged by the following Menlo Park departments and divisions:

- Community Development
 - Planning
 - Building
- Public Works Engineering
- Police
- Community Services and Recreation

The study involved the identification of existing and potential new fees, fee schedule restructuring, data collection and analysis, orientation and consultation, quality control, communication and presentations, project management, and calculation of individual service costs (fees) or program cost recovery performance.

The User Fee Study focused on the cost of City services, as City staff currently provide them, at existing, known, or reasonably anticipated service and staffing levels. This study was not a “management study” that attempted to identify, evaluate, or quantify potential cost savings opportunities, efficiency and effectiveness improvements, performance or productivity, staffing or organizational structure, process changes, risk mitigation, or other factors that could later influence operating practices and the cost of the services. The analysis did not seek to compare or contrast the fee service levels, fee structures, or operating practices of Menlo Park with other cities. This study also did not address potential economic or social impacts on the community as a whole.



About Wohlford Consulting

The consultant for this study, Chad Wohlford, has worked with over 60 jurisdictions and produced dozens of cost analysis studies as a consultant for more than ten years, with 12 years of prior direct government management and analytical experience. Before forming *Wohlford Consulting in 2005*, Mr. Wohlford was the state director of the cost services practice for a large national consulting corporation. *Wohlford Consulting* is based in Sacramento.

Purpose of the Report

This report serves as a summary presentation of the study results, as well as a general description of the approach and methods the consultant and City staff used to determine the cost of the services. Some issues are presented to give the City a better understanding of the background for the results and the study processes. However, the report is not intended to document all of the issues and discussions involved with the study, nor is it intended to provide persuasive discourse on the relative merits of the tools, techniques, methods, or other approaches used in the study. The main source of detailed information from this study is the series of worksheets and workbooks that contain the source data and calculations that lead to the final results.



LOCAL GOVERNMENT USER FEE ISSUES

User Fees Defined

A *User Fee* is:

A fee or rate charged to an individual or group that receives a *private benefit* from services provided by the City.

The defining principle behind a user fee is the nature of the *individual* or *private* benefit that results from the service for which the fee is charged. With the inflexibility and categorical requirements of many funding sources, “taxes” (as embodied by the General Fund) are generally levied and used to pay for services that benefit the public as a whole (i.e., community benefit). Of course, a number of “grey areas” exist to complicate the specific categorization of charges, since many services that appear to benefit a single group may have secondary benefits to others. It is the prerogative of the City Council or other governing body to determine the final fee levels that reflect the local policies and intent regarding cost recovery and subsidies.

A type of local government fee that is similar in nature, but otherwise separated from, user fees is utility rates. Utility rates seek to recover for the usage of a particular commodity provided by the government agency, such as water or sewage treatment. In contrast, the traditional user fees addressed in this study relate to services for which employee time is the most prominent feature of the service and regulatory approval is the normal product of the transaction.

Another common type of fees in local government is Development Impact Fees (DIF or AB 1600 Fees). These fees are often incorrectly lumped together or confused with user fees, since DIF’s are authorized by some of the same state statutes and also relate to development services. However, impact fees are intended to recover the cost for additional infrastructure that becomes necessary due to new development. The fees collected for development impacts can only be used for capital projects—not ongoing operations. User fees are generally intended to fund the ongoing operations of the departments that provide the services.

Background

As part of an overall funding strategy, local government has become more and more reliant upon user fees to fund programs and services that provide limited or no direct benefit to the community as a whole. With rising demands for services and restrictions on most other funding sources, cities have increased scrutiny of subsidies provided by the General Fund to other funds and to service recipients that reap the lion’s share of the benefits. To the extent that the government uses general tax monies (General Fund) to provide an individual with a private benefit and not require the individual to pay the cost of the service (and, therefore, receive a subsidy), the government is unable to use the resources to provide a benefit to the community as a whole. In effect, then, the government is using community funds to pay for a private benefit.



Unlike most revenue sources, cities have tremendous control over the amount of user fee revenue they charge to recover costs or the subsidies they can institute.

Recent History of User Fees

In the distant past, known as the time “before Proposition 13,” California cities were not as concerned with potential subsidies and recovering the cost of their services from individual fee payers. In times of fiscal shortages, cities simply raised property taxes, which funded everything from police and recreation to development-related services. However, this situation changed with the passage of Proposition 13 in 1978.

Proposition 13 ushered in the era of revenue limitation in California local government. In subsequent years, the state saw a series of additional limitations to local government revenues. Proposition 4 (1979) defined the difference between a tax and a fee: a fee can be no greater than the cost of providing the service; and Proposition 218 (1996) further limited the imposition of taxes for certain classes of fees. As a result, cities were required to secure a supermajority vote in order to enact or increase taxes. Since the public continues to resist any efforts to raise local government taxes, cities have little control and very few successful options for new revenues.

To compound the revenue problems faced by local government, the state of California took a series of actions in the 1990’s and 2000’s to improve the state’s fiscal situation—at the expense of local government. The “ERAF” take-away of property taxes and the reduction of Vehicle License Fees severely reduced local tax revenues.

Cities (and counties) faced significant funding troubles in the face of rising and uncontrollable costs, increased citizen demands, and continued imposition of state mandates. The flexibility of local government budgets to address their own priorities was hampered by categorical grants, earmarked funds, mandates, maintenance of effort requirements, and funding match requirements. As expected, cities and counties sought relief.

To cope with the funding shortages, local government was forced to enact service reductions, seek reimbursement from the state for more and more mandated services (SB 90 Mandated Cost Reimbursement), and impose a wider range and higher levels of user fees and impact fees. In turn, to placate local government and transfer some control and responsibility, the state delegated more authority to charge user fees. The state also codified limitations to user fee levels and administration and put more of the responsibility and liability for user fees to the local level.

With greater need and authority to charge fees, local governments took to the concept early and with gusto. After a series of real and/or perceived abuses, a focused and influential user fee backlash occurred in the mid-1990’s that required further clarification and limitation of user fee practices. Special interest groups (led by the building industry) challenged the fees in a number of cities and counties, resulting in a series of lawsuits, special studies, and formal opinions from the California Attorney General (1995) and Legislative Counsel of California (1997).

The end result of all of these user fee actions is an environment of significant scrutiny of any and all fee actions. Local government has been forced to pay greater attention to the methods and



bases for new fees, since they can be readily challenged. The focus of fee-setting decisions has shifted from the revenue needs to the actual cost of the services provided. “Pay to Play” principles have become more prominent as a way to ensure equity and fairness for all citizens. In addition, the issue of subsidies has come to the forefront, since it has become less tolerable to use general taxpayer funds to subsidize the private activities and profits of developers (for example) and other individual beneficiaries of city services—at the expense of more public safety and social services.

Basic User Fee Principles

The definition of a user fee, the evolved environment for their existence and administration, and general public administration concepts all affect a user fee study. Wohlford Consulting considered a variety of related principles to assist the City of Menlo Park in the determination of user fee structures, service costs, and implementation. Under these principles, User Fees should be:

- Based on the Cost of Services:
 - ✓ Not arbitrary
 - ✓ Not unintentionally subsidized
 - ✓ Not unfairly subsidized
- Fair and Equitable
- Consistent with City Goals / Objectives
- Compliant with State Law
- Dynamic (for updates & anomalies)

For most of the development-related user fees, state law establishes that “...fees may not exceed the estimated reasonable cost of providing the service for which the fee is charged...” (Government Code §66014). This admonition is the overriding principle in this User Fee Study, overriding all other issues. The costs calculated in the study represent the maximum estimated reasonable full cost for each service and, therefore, the maximum fee the City should charge for its non-discretionary services.



PROJECT APPROACH AND METHODOLOGY

Conceptual Approach

The basic concept of a User Fee Study is to determine the *full cost* of each service provided by the City for which the City charges a user fee. The full cost may not necessarily become the City's fee, but it serves as the objective basis from which the City leaders can make informed decisions regarding the final fee level.

In order to determine the full cost for each fee service and provide a basis for the City to establish full cost recovery, if so desired, the cost analysis incorporates the following "full cost" components:

- Direct Salaries & Benefits
- Services and Supplies
- Indirect Activities
- Supervision and Support
- Cross-Department Support
- Department Administration
- Citywide Administration (Cost Allocation Plan)
- Facility Use
- Capital (annualized)
- Anticipated Growth

One of the critical methods to ensure full cost recovery rates was to establish annual productive (or "billable") hours for staff. The study reduced the full-time annual hours (2,080) by the non-billable hours, such as holiday, vacation, sick leave, and the like. By using only the true number of productive hours per employee, the study ensures that hourly rates and the resultant costs reflected the levels necessary to recover the full cost of services in a particular year given the real availability of staff to provide direct services.

The standard fee limitation established in California law for property-related (non-discretionary) fees is the "estimated, reasonable cost" principle. In order to maintain compliance with the letter and spirit of this standard, every component of the fee study process included a related review. The use of budget figures and time estimates clearly indicates reliance upon estimates for some data. In other areas, we used actual known figures that exceed the standard. The key to the defensibility of the study, therefore, was a dedication to the reasonableness of the data and results. The ubiquitous Quality Control steps ensured that the study satisfied the reasonableness standard. The study did not utilize any arbitrary data or other information that could not satisfy the estimated/reasonable standard.

Whenever it was possible to establish reasonably consistent time/workload standards for individual fees, we developed the cost of the service as a "flat" or "fixed" fee. In addition to



providing consistent cost information, this approach is the most common method for developing the full cost of City services. The alternative is to track actual staff time for every staff member for every service, which creates an administrative burden and, in the case where the City may choose to charge fees, leaves the City and the fee payer unable to predict the final cost of the fee. However, the alternate “time and materials” approach is superior when the fee activity varies widely between occurrences and would cause fixed fees to be unfair and unreasonable in a significant number of cases. For Menlo Park’s study, we established some fees as variable time and materials fees wherever necessary (primarily in Planning).

The cost figures used as the basis for the study were from the City of Menlo Park’s FY 2008/09 Final Budget.

Summary Steps of the Study

The methodology to evaluate most User Fee levels is deceptively simple in concept. We employed a “unit cost build-up” approach to determine the cost of individual services. This approach used the following factors:

- Staff Time to Complete Activities and Services
- Direct Cost of Individual Staff Positions (converted to productive hourly rates)
- Rational Distribution of Overhead and Support

By multiplying the first two factors (# of hours by hourly rate), we identified the direct cost for each service. By distributing the remaining indirect/overhead costs, we established the full cost. The following list provides a summary of the study process steps:

Fee Study Process Outline

1. Establish the inventory of fee services (current and potential)
 2. Identify the staff positions that work on each fee service
 3. Calculate the direct productive hourly rate for each position
 4. Determine the time necessary for each position to perform fee tasks
 5. Calculate the direct cost of the staff time for each fee
 6. Distribute indirect and overhead costs to each fee
 7. Sub-allocate supporting activities to fee services
 8. Perform quality control processes (constant)
 9. Calculate revenue impacts
 10. Perform the “gap analysis” (unit and total subsidies)
 11. Perform review processes
 12. Document and present results
-

As with any significant enterprise, “the devil is in the details” of a User Fee Study. Each of these steps is a significant undertaking with many subtasks, iterations, review, and quality control requirements.



The following table illustrates the methodology using hypothetical information in a simplified format:

Simplified Unit Cost Calculation

| Service ("Fee" or Program) / Activity | Time to Complete 1 Activity (hours) | X | Productive Hourly Rate | = | Full Cost (per Unit of Fee Activity) | X | Annual Volume of Activity | = | Potential Annual Revenue |
|--|--|----------|-------------------------------|----------|---|----------|----------------------------------|----------|---------------------------------|
| FEE #1: | | | | | | | 10 | | |
| Intake | 0.5 | | \$ 100 | | \$ 50 | | 10 | | \$ 500 |
| Plan Check | 1 | | \$ 100 | | \$ 100 | | 10 | | \$ 1,000 |
| Inspection | 2 | | \$ 100 | | \$ 200 | | 10 | | \$ 2,000 |
| Filing | 0.5 | | \$ 100 | | \$ 50 | | 10 | | \$ 500 |
| S&B Total: | 4 | | \$ 100 | | \$ 400 | | 10 | | \$ 4,000 |
| Allocated Costs | | | | | \$ 50 | | 10 | | \$ 500 |
| FEE TOTAL | | | | | \$ 450 | | 10 | | \$ 4,500 |

The above table indicates that Fee #1 takes staff a total of four hours to complete the necessary services, so at \$100 per hour, the direct staff cost is \$400 per unit. The addition of \$50 for indirect and overhead costs brings the total unit cost to \$450. With 10 units a year, the total annual cost for the service is \$4,500.

It is important to note that this simple example indicates only a single position at four hours time consumed per unit. The actual time analysis is much more detailed, and includes individual time estimates for each employee that works on each service for which the City charges a fee.

By multiplying the unit costs by the annual number of activities (how many fees are charged in a year), we are able to estimate the total annual cost of the fee-related activities. By using the same annual activity volumes and multiplying them by the current fees, we are able to establish the potential revenue from current fees. The difference between the two figures is the actual cost-current fee "gap." If the current fees are greater than the actual cost, the gap is an over collection or profit. If the full cost is greater than the current fees, the gap represents a subsidy. The following table illustrates this gap analysis:



Simplified Annual Subsidy/Gap Analysis

| Fee | Annual Volume of Activity | X | Current Fee | = | Annual Revenue @ Current Fee | - | Annual Revenue @ Full Cost | = | Current Annual (Subsidy) / Surplus |
|---------------|---------------------------|---|-------------|---|------------------------------|---|----------------------------|---|------------------------------------|
| Fee #1 | 10 | | \$ 100 | | \$ 1,000 | | \$ 4,500 | | \$ (3,500) |
| Fee #2 | 15 | | \$ 75 | | \$ 1,125 | | \$ 2,000 | | \$ (875) |
| Fee #3 | 20 | | \$ 50 | | \$ 1,000 | | \$ 500 | | \$ 500 |
| Fee #4 | 25 | | \$ 25 | | \$ 625 | | \$ 100 | | \$ 525 |
| Total: | | | | | \$ 3,750 | | \$ 7,100 | | \$ (3,350) |

The above table indicates that Fee #1 is currently subsidized \$3,500 per year, while the City is charging fee payers \$500 more per year than the associated cost for the service represented by Fee #3.

Alternate Methodology for Community Services and Recreation

The standard unit cost approach used in Menlo Park’s User Fee Study relies upon the detailed analysis of specific time estimates, salaries and benefits, expenditures, and overhead costs. For most recreation programs, the underlying data are not available or vary widely, leaving the unit cost build-up approach impractical. In addition, market factors and policy concerns (as opposed to actual costs) tend to influence recreation fee levels more than other types of services. With these general constraints, and in order to maximize the utility of this analysis, Wohlford Consulting employed a different methodology for recreation and facility use fee calculations.

For the programs and services in Menlo Park Community Services and Recreation we utilized a cost-revenue analysis approach that established the cost recovery performance of the department at various sub-levels (e.g., divisions, programs). For the first step, we calculated the full cost of each program, using staff time estimates and full costs. In the second step, we compared the annual revenues to the full costs to establish the percent of cost recovery for each program. By developing results at this level, we identified program-wide potential fee changes that the department can use to address the cost-recovery goals of the department.



City Staff Contributions

As part of the study process, the consultant received tremendous support and cooperation from City staff, who contributed and reviewed a variety of components to the study, including:

- Budget and other cost data
- Staffing structures
- Fee and service structures, organization, and descriptions
- Direct and indirect work hours (billable/non-billable)
- Time estimates to complete work tasks
- Activity statistics (fee volumes) and current fee levels
- Review of draft results and other documentation
- Information and characterizations of existing relevant issues and policies

A User Fee Study requires significant involvement of the managers and line staff from the departments—on top of their existing workloads and competing priorities. The contributions of City staff were critical to the success of the study. The individuals involved should be commended for their assistance, professionalism, positive attitudes, helpful suggestions, responsiveness, and overall cooperation. In particular, Wohlford Consulting would like to recognize the following City staff for their considerable assistance:

- Carol Augustine – Finance
- Geoffrey Buchheim - Finance
- Ron LaFrance - Building
- John McGirr - Finance
- Justin Murphy - Planning
- Jennifer Ng – Engineering
- Nancy Nuckolls – CS&R
- Dani O’Connor - Police
- Eren Romero – Engineering

In addition, there were likely many others who were involved but did not work directly with the consultant (and so their names are unknown to the consultant), and they should be commended for their assistance.

Basic Assumptions and Standards

The study relied upon a series of underlying assumptions and basic considerations to achieve the results. These issues are described below:

Time

Estimates: One of the principal building blocks of this cost analysis was the estimates of time provided by City staff to represent their workload related to each fee service and/or subordinate activity. The use of staff-provided time estimates was necessary in the absence of actual time data, such as the kind that could be developed through a long-term time and motion study or other more formal methods. If conscientiously considered by qualified staff, time estimates should satisfy the requirement that a non-discretionary fee must not exceed the “...estimated reasonable cost of providing the service for which the fee is



charged...” (GC 66014 a). In this case, the departments provided time estimates that represent the normal course of action for each fee service, as determined through the experience of the department staff, who are the preeminent experts of their services in Menlo Park. This approach is “industry standard” for cost of service and user fee analysis.

Service Level

Assumptions: The entire analysis was based upon the current City organization and business practices. The study assumed continued consistency in the time consumption for each service, as well as future staffing, quality, productivity, efficiency, and all other qualitative and quantitative standards.

Consistent

Workload: Most of the service costs in this study were developed as “flat” or fixed fees. Under this approach, we calculated the cost of the services after assuming that all services for a specific fee will require the same workload (time), regardless of the characteristics of the particular fee activity or the applicants. As directed, department staff provided time estimates that reflected the “typical” level of effort required for a particular fee activity. This flat fee approach ignores the variance in time that may exist from applicant to applicant, due to qualitative or other differences in the applicants themselves or their submitted materials. The overall efficacy of this approach relies upon the assumption that the variances will “average out” over the course of time, resulting in a consistent and reasonably fair fee for all.

Subsidy: A “subsidy” exists when the cost of a particular service is greater than the fee charged and recovered for that service. The total cost of the service is very real and must be borne by one or more City funding sources, so the concept of a subsidy is not theoretical. In local government, subsidies are normally covered by General Fund revenues, since most other funding sources are limited in what they can be used to fund. This reliance upon General Fund revenues creates some criticism, since it reduces the availability of those revenues for other services. However, subsidies can also reflect positive public policy goals, since they can be used to encourage or reward certain desired activities.

This User Fee Study identified the current levels of subsidy for individual fee activities, as well as the departments as a whole. The purpose of the subsidy (gap) analysis was simply to inform the City regarding current subsidy levels and give City leaders information to help them make informed fee-setting and policy decisions.

Costs vs.

Fees: The appendices and some supporting materials to this study reference “fees” in titles and descriptions. In the context of the full cost analysis, the terms “cost” and “fees” are initially synonymous. The full cost of a service serves as the potential fee until the City has an opportunity to review the results and establish



new fee levels for implementation. This study does not presume to establish City fees, since the decisions about fee levels are the purview of the City Council and require additional information (community response, economic impacts, etc.) that was not evaluated as part of this study.

Quality Control

A cost analysis study is a “GIGO”^{*} process. All study components are interrelated, so bad data at any step in the process will cause the ultimate results to be flawed. To avoid accuracy problems and other quality flaws, the study incorporated a rigorous Quality Control process with checks at every critical step in the study process.

The Quality Control measures ensure that the study covered all of the issues, appropriately accounted for positions and resources in the models, and factored all other data fairly and accurately in the study. The elements of our Quality Control process for User Fee calculations include:

- ✓ Involvement of knowledgeable City staff and managers
- ✓ Clear instructions and guidance to City staff and managers
- ✓ Process checklists
- ✓ Reasonableness tests and validation
- ✓ Normalcy/expectation ranges (data inputs and results)
- ✓ Challenge and questioning
- ✓ Consumption of staff hours
- ✓ FTE balancing
- ✓ Internal and external reviews
- ✓ Cross-checking

^{*} Garbage in, garbage out (bad inputs equal bad outputs)



FINDINGS AND RESULTS

Summary

As a cost of service (user fee) analysis, the principal output and findings of this study are simply the full cost figures for the fee activities. City staff will separately evaluate and present “recommended fee levels” for consideration by the City Council. The appendices exhibit these unit fees individually. However, in order to put the results in context, the consultant extrapolated the unit fees into a one-year period, which indicates the potential revenue impacts to the City and individual departments.

The current cost of City fee activities included in this study is approximately \$12.3 million annually. Given the current fee levels charged by the City, the potential annual revenue (assuming a consistent activity level) is only \$7.5 million, which represents a current annual General Fund subsidy of approximately \$ 4.8 million and a cost-recovery ratio of 61% overall. In other words, if the City set fee levels at the full cost of each service, (100% cost-recovery) the City could reap an additional \$ 4.8 million in additional revenue from fee activities.

The reality of the local government fee environment, however, is that significant increases to achieve 100% cost recovery are often not feasible, desirable, or appropriate. In recognition of this situation in Menlo Park, City staff will develop a series of recommended fees that will likely result in less than full cost recovery in the first year. The annual amount of revenue from the recommended fees and the actual cost-recovery ratio will not be known until City staff prepares their analysis and recommendations to the City Council.

The following table illustrates these results for each department/division included in the study:

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| Department / Division | FULL COST: Annual Cost of Fee-Related Services | CURRENT REVENUE: Projected (annual) @ Current Fees | CURRENT SURPLUS / (SUBSIDY): (Full Cost - Current) | CURRENT COST RECOVERY RATE (Current / Full Cost) |
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| TOTALS: | \$ 12,302,000 | \$ 7,521,000 | \$ (4,781,000) | 61% |



The “full cost” figures presented in the table reflect only the total annual cost of the fee-related activities. Each department and division also has a number of non-fee activities that are not included in this table. Therefore, the table’s focused cost figures will not match any budgets or other financial documents that include every component of the departments and divisions.

As the table shows, four out of five of the departments/divisions have a significant current annual subsidy. Without fee increases, the General Fund will continue to offset the cost versus fee revenue gap by over \$4.7 million annually.

The appendices to this report contain the unit cost and department/division summary results from the User Fee Study. To achieve these results, the consultant prepared and utilized a variety of worksheets and workbooks to document and calculate the full costs of each service. Printouts and electronic files of these materials comprise the background documentation of the study and were provided separately to the City.

Potential Cost Increases from Prior Studies

This cost analysis identified significant gaps (subsidies) between the full cost of individual services (as calculated in the study) and the current fees for almost all fees in the study. This finding may surprise those who assume that the City is already charging full cost for its services.

The City of Menlo Park has not completed a comprehensive fee analysis in many years. Even if the City established user fees at 100% of full cost identified in the previous study, and regularly applied an inflation factor since then, there are a variety of reasons why the cost calculations from this 2008 study would identify significant gaps between the current fees and the new full cost. Since this study did not attempt to evaluate and quantify the specific factors that caused the major increases, the reasons for significant cost or potential fee increases are not certain. However, some common factors include:

- Increases in City costs that exceed inflationary factors (e.g., CPI), such as:
 - employee salaries (COLA’s, step increases)
 - employee benefits (PERS, healthcare)
 - services and supplies (electricity, fuel, insurance)
 - citywide overhead costs (Cost Allocation Plan results)
- Current fees may not have been previously set at full cost (policy decisions)
- Changes in per-unit workload (i.e., time required to complete tasks)
- Inclusion of new costs not in existence or identified in the previous study, such as:
 - Other Post Employment Benefits (OPEB – retiree medical care costs)
 - Internal administrative and supervision costs (department and division overhead)
 - annualized capital or asset replacement costs
 - cross-department support costs
 - support functions authorized to be included in user fees (e.g., code enforcement costs in building and planning fees; general plan update costs)
- Improved analytical methodologies with enhanced rigor and comprehensiveness
- Improved recognition of the role and treatment of productive / billable hours factors (direct vs. indirect work hours)



Definition of Results

The “results” of this study shown in the appendices and in this report reflect the full cost of the fee-related services provided by the City. The study results are not the “fees” that the City will charge. The City Council has the authority and responsibility to set the fee levels following receipt of staff recommendations, public meetings, and deliberations, which will occur after the conclusion of this study.

Recommended Fees

If the City’s overriding goal of this study was to maximize revenues from user fees, Wohlford Consulting would recommend setting user fees at 100% of the full cost identified in the study. However, we understand that revenue enhancement is not the only goal of a cost of service study, and sometimes full-cost recovery is not needed, desired, or appropriate. Other City and department goals, City Council priorities, policy initiatives, past experience, implementation issues, and other internal and external factors may influence staff recommendations and City Council decisions. (See the “Fee Setting Considerations” section of this report for more discussion of these potential factors.) In this case, the City indicated that revenue enhancement was not a primary goal of this study.

In recognition of these other issues, department staff will work to develop “recommended” fees that address the current needs and concerns of the individual departments. We anticipate that the City Council may provide further direction to staff regarding acceptable fee levels. In the meantime, the revenue results shown in the study results are based upon the full cost calculated in this study, and do not reflect any “recommendations” provided by Wohlford Consulting.

Limitations for Use of Revenue Results

The annual cost and revenue results are based upon an estimated annual volume of activity. The purpose of these total figures is to provide a sense of scale that puts the subsidies and other results in context, in order to maximize the City’s ability to make informed fee-setting decisions. However, these figures are not perfect, since a number of variables could alter the final revenue totals, such as:

- Fees set at less than full cost
- Increased or decreased activity from assumed levels
- Change in the “mix” of services and fees
- Timing of the implementation of the fees and revenue collection
- Service activities and fee collections that cross multiple fiscal years
- Project tasks (activity volume count) and fee collection occur in different years

Wohlford Consulting calculates the potential revenue figures and annual costs to provide a basis for comparison of current fee levels to full cost (and later, recommended fees). Since the variable factors are entirely unknown (to the consultant and the City), we do not recommend that the City rely upon these numbers for specific budget development or future planning that requires significant accuracy.



Results for Building

| FULL COST: Annual Cost of Fee-Related Services | CURRENT REVENUE: Projected (annual) @ Current Fees | CURRENT SURPLUS / (SUBSIDY): (Full Cost - Current) | CURRENT COST RECOVERY RATE (Current / Full Cost) |
|---|---|---|---|
| \$ 2,178,000 | \$ 2,254,000 | \$ 76,000 | 103% |

Summary

Building staff and the consultant worked together to develop results based upon the calculated cost of providing the permitting, plan check, inspection, and other fee-related services. This analytical methodology is a change from the City’s current approach to determine building fees based on the “value” of each construction project reviewed by the division.

In addition to the overall change in approach, the Building costs (potential fees) also contain “new” fees not previously found in the division. Staffing, workflow, and other operational circumstances made it most practical and appropriate to “move” fees from Engineering’s fee schedule, for example, to the Building Division’s analytical model (e.g., grading permits). Under this approach we also incorporated staff from other departments that are involved in Building fees, but may have been charged separately in previous fee structures (e.g., Engineering staff review of building plans). This approach represents our philosophy to develop “Menlo Park” fees that encompass all City costs, rather than fees specific to any one department.

As a basic finding, our cost analysis revealed that the staff hourly rates currently charged by the Building Division are all less than the full cost of providing a productive hour of each position’s time—12% less on average. However, since the division does not currently base its building fees on the staff hourly rates, this difference has no impact on the cost-recovery performance of the individual building fees themselves.

The cost analysis of the Building Division revealed an overall annual surplus in the Building Division of approximately \$76,000 for fee-related activities. (Note: Non-fee activities were included in the analysis to ensure proper distribution of all costs, but are excluded from the summary figures presented in this report.) This surplus figure, however, must be considered in light of the limitations of this analysis.

The division’s current method of setting fees based on the value of the individual projects does not permit a reliable comparison of current fees to full cost. Given the ad hoc nature of the valuations, which change for each and every project, the division was not able to establish a “typical” or “standard” current fee that can be compared to calculated unit costs. As a result, for this analysis, we relied upon historical (FY 07/08 actual) revenues for the New Construction and Miscellaneous items in the fee study to compare overall



revenues to costs. The analysis assumes (based on assertions from the division staff) that the annual fee volumes used in the study are consistent with the volumes from FY 07/08. The division currently uses flat fees for most of the Mechanical, Plumbing, and Electrical (MPE) fee items, so a cost-to-fee comparison was feasible for those fee areas.

Without the detail of fee-to-cost comparisons for New Construction and Miscellaneous Items, it is impossible to determine which unit fees are currently subsidized and which ones result in surpluses. However, we can provide some predictions based on Wohlford Consulting’s experience in building fee studies for a wide variety of other jurisdictions. Almost universally, we find that New Construction fees under-recover the cost of services for smaller project sizes and over-recover for larger project sizes. Most commonly, the existence of an overall subsidy or surplus in New Construction fees depends on the mix of projects among sizes. We fully expect that to be the case for Menlo Park, so a change in the sizes of the submitted projects could easily reverse the surplus and establish an overall subsidy in future years.

From our experience, we also expect that most of the Miscellaneous Items are currently under-recovering full cost. This situation is not apparent in the study, because the revenues for New Construction and Miscellaneous items are combined, and specific current fee data was not available to compare with full cost at the unit fee level.

For Mechanical, Plumbing, and Electrical Items, the unit full cost was greater than the current fee for every service we evaluated. The overall recovery rate for MPE’s was 41%, resulting in an annual subsidy of \$129,000.

Regardless of the current subsidy or surplus situation, adoption of the cost results and fee structure utilized for this study will enable the City to set fees based upon the full cost of the services provided by City staff, rather than on the value of projects submitted by customers.

Appendix 1 contains the detailed results for the Building Division.

Results for Community Services and Recreation

| FULL COST: Annual Cost of Fee-Related Services | CURRENT REVENUE: Projected (annual) @ Current Fees | CURRENT SURPLUS / (SUBSIDY): (Full Cost - Current) | CURRENT COST RECOVERY RATE (Current / Full Cost) |
|---|---|---|--|
| \$ 7,202,000 | \$ 4,067,000 | \$ (3,135,000) | 56% |

Summary

The analysis of Community Services and Recreation services consisted of a comparison of the overall full cost and revenue of each program. This method identified the *cost-recovery performance* of each program, as represented by a cost-recovery percentage.



The inverse of this percentage establishes a factor the department can apply to all program fees to determine the levels necessary to achieve full cost recovery.

Overall, the department maintains a subsidy of roughly \$3 million, for a cost-recovery rate of 56%. Individually, the subsidies for the programs vary over a wide range. (Appendix 2 provides a breakdown of the cost-recovery rates for each program.)

The results for the department are typical. City departments throughout the state that provide social and/or recreational services almost always operate with significant subsidies, with varying degrees of subsidization among the programs.

Appendix 2 contains the detailed results for the Community Services and Recreation Department.

Results for Engineering and Public Works

| FULL COST: Annual Cost of Fee-Related Services | CURRENT REVENUE: Projected (annual) @ Current Fees | CURRENT SURPLUS / (SUBSIDY): (Full Cost - Current) | CURRENT COST RECOVERY RATE (Current / Full Cost) |
|---|---|---|---|
| \$ 1,217,000 | \$ 397,000 | \$ (820,000) | 33% |

Summary

The analysis of Public Works fee activities relied upon the standard unit cost build-up approach, whereby we calculated the cost of each unit of service using staff time and productive hourly rates. To develop the annual subsidy or surplus figures, we multiplied the unit costs and current unit fees by the anticipated annual volume of each.

As with the other development services areas, the cost analysis for Public Works Engineering demonstrated that most of the Engineering and Public Works current fees are set at less than the full cost of providing the services. A few current fees are higher than the full unit costs. Overall, the department has a 33% cost-recovery rate and a subsidy of \$820,000. The hourly rates for most positions (22 out of 27) are currently set lower than the full cost recovery rates—an average of 12% less.

As introduced in the results section for Building, we transferred some of the services and fees previously charged by Engineering to the analyses for Building and Planning. These include grading permits, building plan checks, some site inspections, and map-related fees. This approach represents our philosophy to develop “Menlo Park” fees that encompass all City costs, rather than fees specific to any one department.

Appendix 3 contains the detailed results for the Engineering analysis.



Results for Planning

| FULL COST: Annual Cost of Fee-Related Services | CURRENT REVENUE: Projected (annual) @ Current Fees | CURRENT SURPLUS / (SUBSIDY): (Full Cost - Current) | CURRENT COST RECOVERY RATE (Current / Full Cost) |
|---|---|--|---|
| \$ 1,393,000 | \$ 650,000 | \$ (743,000) | 47% |

Summary

The analysis of Planning fee activities relied upon the standard unit cost build-up approach, whereby we calculated the cost of each unit of service using staff time and productive hourly rates. To develop the annual subsidy or surplus figures, we multiplied the unit costs and current unit fees by the anticipated annual volume of each.

The Planning fees consist of a mix of flat (fixed) fees and time and materials fees (variable @ staff hourly rates with an initial deposit). For those fees where the staff could identify a typical or standard project, with only slight variability of staff effort (i.e., cost) between projects, we established fixed costs. In contrast, we designated services where significant variability of staff effort exists between projects as time and materials fees. For the time and materials fees, we used the calculated staff hourly rates to establish the “cost” of a typical project, which can serve as the base deposit.

The cost analysis revealed that almost all (78 of 79) current fees in the Planning Division are less than the full cost for the fee-related services. The hourly rates for every position are currently set lower than the full cost recovery rates—an average of 20% less. As a result, the current fee structure provides an annual subsidy of over \$743,000 to the fee payers and an overall cost-recovery rate of 47%. One potential uncertainty in these general figures is that the actual gap may be mitigated by greater cost recovery through deposit-based fees that exceed the average deposits and fees included in the cost analysis.

As with the Building analysis, the Planning costs (potential fees) contain “new” costs not previously found in the division. Staffing, workflow, and other operational circumstances made it most practical and appropriate to “move” fees from Engineering’s fee schedule, for example, to the Planning Division’s analytical model (e.g., tentative and final tract maps). Under this approach, we also incorporated staff from other departments that are involved in Planning fees, but may have been charged separately in previous fee structures. This approach represents our philosophy to develop “Menlo Park” fees that encompass all City costs, rather than fees specific to any one department.

Appendix 4 contains the detailed results for the Planning Division.



Results for Police

| FULL COST: Annual Cost of Fee-Related Services | CURRENT REVENUE: Projected (annual) @ Current Fees | CURRENT SURPLUS / (SUBSIDY): (Full Cost - Current) | CURRENT COST RECOVERY RATE (Current / Full Cost) |
|---|---|--|---|
| \$ 312,000 | \$ 153,000 | \$ (159,000) | 49% |

Summary

The analysis of Police Department fee activities relied upon the standard unit cost build-up approach, whereby we calculated the cost of each unit of service using staff time and productive hourly rates. To develop the annual subsidy or surplus figures, we multiplied the unit costs and current unit fees by the anticipated annual volume of each.

The cost analysis of the Police Department revealed an overall annual subsidy approximately \$159,000 for fee-related activities. The overall picture is comprised primarily of individual fees that are currently set below full cost recovery, with a few that are set at a level to over-recover full cost. The current staff hourly rates charged by the department are all less than the full cost of providing a productive hour of each position’s time—26% less on average.

It is important to note that the Police Department’s fee activities represent only a small portion of its overall costs. We included non-fee activities (e.g., patrol and investigations) in the analysis to ensure proper distribution of all costs, but we excluded these activities (and related cost results) from the summary figures presented in this report. In addition, even though the City has rates for parking permits, this study did not attempt to calculate the cost of parking operations, patrol, maintenance, or other elements of the parking program. Any cost results related to parking were also excluded from the summary figures presented in this report.

Appendix 5 contains the detailed results for the Police Department.

Other Study Outcomes and Benefits

Although it was the primary focus of the study, the cost analysis itself was not the only part of this User Fee Study that benefits the City. There were a series of secondary outcomes and benefits that are important for the City to recognize. These “products” resulted from the steps of the processes used in the study, the analysis of data, and the myriad of discussions between the consultant and City staff.

Since these secondary outcomes were not the focus of the User Fee Study scope of services, the descriptions presented below are not intended to fully explain and document all of the elements and benefits of these outcomes. Instead, the intent of these descriptions is simply to remind the City of their existence and to encourage follow-up in some cases.



Orientation and Training

Wohlford Consulting believes that the long-term success of the project is affected by the ability of City staff to continue to understand, use, and explain the study methodologies and results after the consultant is gone. Consequently, as part of our study process, we spent a considerable amount of time working with City staff to explain the conceptual and practical elements of the data collection, analysis, and calculations. This informal training process not only ensures the future success of the project, but it also facilitated effective data collection and the City's internal review of the results. We remain committed to helping everyone involved to fully understand the study and its surrounding issues and will continue to be available to answer questions about the study long after its conclusion.

Intangibles

The true value of a User Fee consultant is not in his ability to perform mathematics, develop spreadsheets, or gather data. He is most helpful using experience, expertise, and perspective to help the City solve problems and accomplish its objectives. To this end, this User Fee Study included more than just the documents and calculated results that we provided as deliverables.

During the course of this study, we provided the appropriate City representatives with advice intended to help the City best achieve its current and future objectives. We discussed implementation strategies and alternatives, future steps, common questions and complaints, public policy considerations, economic considerations, legal considerations, how to address criticism and support the study, other analysis needed, and update techniques. These discussions and the other contributions from the consultant do not necessarily appear in any of the formal documentation, such as this report. Instead, this work was manifest in dozens of telephone conversation, emails, and meeting discussions.

In addition, the study from *Wohlford Consulting* included a communication plan, quality control processes, and other project management tools and practices to ensure the quality and success of our project. These measures may have been completely invisible to the City of Menlo Park, but they were a large part of our commitment to the City's success.

Management Information

In addition to the cost of service information that comes out of a User Fee Study, the processes of data collection, analysis, and validation produce beneficial management information. The background documentation and fee models, as well as the discussions with the consultant, highlighted some information that would be beneficial for interested department managers who may wish to pursue additional analysis. Since this kind of management study was outside the scope of this User Fee Study, *Wohlford Consulting* did not pursue any supplemental avenues of investigation or analysis. Nevertheless, we wanted to remind department managers of the auxiliary information that we developed



together and is available in the documentation. This information included current and potential:

- Utilization of Time and Staff (productivity and staffing needs)
- Revenue Impacts (potential new revenue)
- Distribution of Staff Effort across Services (who does what and for how long)
- Total Time for Each Service (workload impacts)
- General Staff Productivity (direct vs. indirect activities)



OTHER ISSUES AND INFORMATION

Future Updates

The Menlo Park User Fee Study represents a snapshot in time of the costs to provide fee related services. Since the analysis is based upon the FY 2008/09 Final Budget, the study's applicability to the budget and current costs effectively ends on July 1, 2009, when the new fiscal year budget goes into effect. With budget/cost increases over time, the fee levels would fall further behind in future years. Consequently, the City needs a method to keep the fees relatively current with changes in costs over time. Some of the most common approaches include:

Status Quo: Many cities simply allow their fees to remain constant over the years. Not only does this approach negatively affect revenue recovery, it also causes potentially dramatic increases when the next update is completed. *Wohlford Consulting* recommends against the status quo approach.

Full Review: Menlo Park can elect to conduct a complete user fee study each year. This would be the most accurate and defensible update strategy, but it would be the most expensive and time consuming. The payback for this level of effort and scrutiny does not usually warrant this approach, so *Wohlford Consulting* does not recommend it.

Minor Update: A minor update would involve changing only the basic cost factors in the existing fee models to recalculate fees at the new levels. Time estimates, allocation bases, staffing levels, and other key components would remain the same. This level of analysis would require either the re-involvement of the consultant, or licensing of the fee analysis software for future use by the City. Either direction would be more cost-effective than a full review, since consultant fees would be merely a fraction of the cost of an entire study. *Wohlford Consulting* recommends the minor update approach as the optimal way to stay current and remain defensible.

Inflation Factor: One of the easiest and least expensive update approaches is to apply an inflation factor to existing fees in an attempt to mirror cost increases over time. This method simply entails the development of a spreadsheet to apply a percentage increase to current fees. City staff (or a consultant) could complete this task with ease. The flaw in this approach is the inaccuracy of any inflation factor applied generically to a wide range of cost types. However, this approach is generally accepted (and seldom challenged) as a convenient and reasonably accurate way to modify fees in future years. For this reason, *Wohlford Consulting* also recommends the inflation factor approach, if the City does not wish to conduct a minor update.



The key to an effective inflation factor approach is to select the “right” factor. A variety of “CPI-type” factors are available for the City to use, with the most common and recognized source being the U.S. Department of Labor, Bureau of Labor Statistics (<http://www.bls.gov/cpi>). However, over the past couple of years, the San Francisco-Oakland-San Jose, CPI has increased between 3.2 % and 3.3%. The first half of 2008 shows an increase of 3.3%. Over the past three years, the Los Angeles-Riverside-Orange County CPI has fluctuated somewhat, with increases of 3.3% in 2007 to 4.5% in 2005, and less than 4% for the prior 8 years, with a 3.8% increase for the first half of 2008. For the West Urban Area, the annual rate of increase was less than 4% in the last six years. The first half of 2008 shows an increase of just under 4%. Considering energy, health care, retirement, and other key costs, the actual costs for the City of Menlo Park have probably far exceeded a 4% annual growth. As a result, *Wohlford Consulting* recommends that the City establish its own inflation factor that represents local cost growth. This factor should be based upon one of the following:

1. City labor costs. Labor costs (salaries and benefits) comprise the majority of operating costs and the largest component of fees for departments, so they are the key driver for overall cost increases. In addition, these costs are the most predictable costs, which will allow the City to calculate prospective fee increases to increase fees earlier and more accurately to maximize cost recovery performance.
2. Total Budget Costs. The City could calculate the overall percentage increases to department budgets and apply this increase to existing fee levels. These costs may also be predictable, but the City must take special care to exclude cost components from the calculations that are not related to fee activities, as was done in the original User Fee Study.

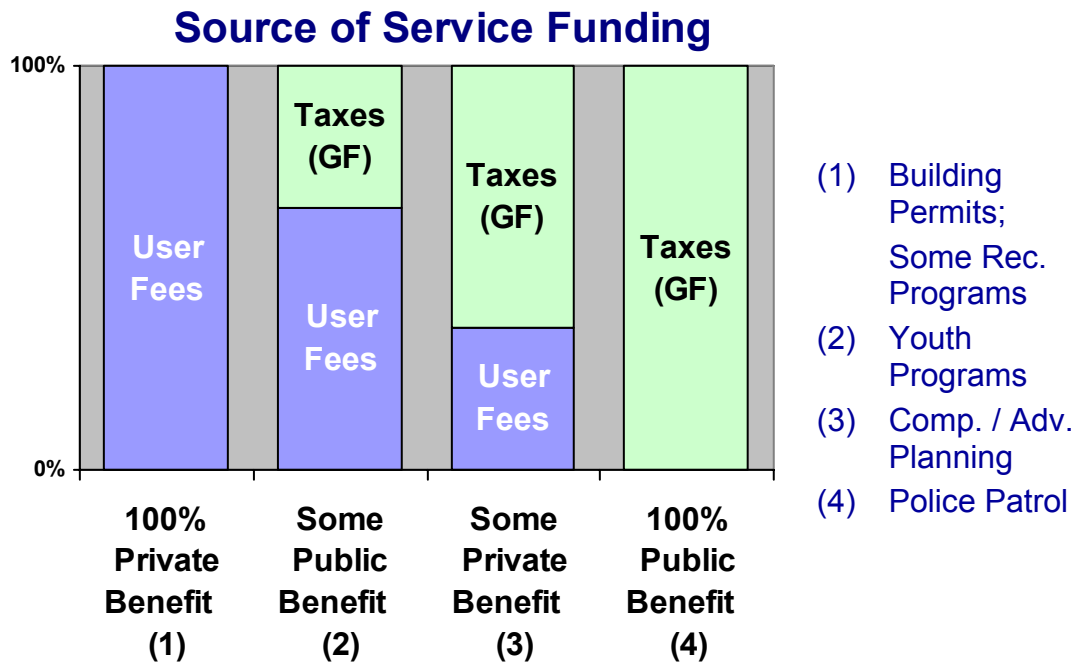
Fee Setting Considerations

The principal goal of this study was to identify the cost of City services, in order to provide information to help the City make informed decisions regarding the actual fee levels and charges. The responsibility to determine the final fee levels is a complicated and daunting task. City staff must consider many issues in formulating recommendations, and the City Council must consider those same issues and more in making the final decisions.

City staff assumed the responsibility to develop specific fee level recommendations to present to the City Council. Unfortunately, there are no hard and fast rules to guide the City, since many “grey areas” exist in which to exercise administrative and political discretion. To assist the City’s deliberations, *Wohlford Consulting* offers the following general considerations:

Subsidization

Recalling the definition of a user fee helps guide decisions regarding subsidization. The general principle is that individuals or groups that receive a purely private benefit should pay 100% of the full cost of the services. In contrast, services that provide a purely public benefit should be funded entirely by tax dollars. Unfortunately for the decision-makers, a large number of services fall into the range between these two extremes. The following graphic illustrates the potential decision basis:



Further complicating the decision, critics of fees often assert that the activities subject to the fees provide economic, cultural, “quality of life,” or other community benefits that exceed the costs to the City. The City should consider such factors during its deliberations regarding appropriate fee levels.

Of course, subsidization can be an effective public policy tool, since it can be used to reduce fees to encourage certain activities (e.g., solar power permits) or allow some people to be able to afford to receive services they otherwise could not at the full cost. In addition, subsidies can be the most appropriate and legitimate thing to do, such as to allow citizens to rightfully access services (such as appeals) without burdensome costs.

Regardless of the intent, it is important for City leaders and the public to understand that the subsidies must be covered by another revenue source, such as the General Fund. Therefore, the general taxpayer will potentially help to fund private benefits, and/or other City services will not receive funds that are otherwise directed to cover subsidies.



Consistency with City Public Policy and Objectives

User fees are part of the fabric of City administration. The fee levels and policies should be consistent with other established policy objectives, strategies, and statements. If the City espouses cost recovery and fairness, fees should reflect those standards by minimizing subsidies. If the City has stated a desire, for example, to encourage low-income housing, the fee structure should make allowances to encourage this type of development. In summary, the existing policy stances should influence the fee decisions.

Impact on Demand (Elasticity)

Economic principles of elasticity suggest that increased costs for services (higher fees) will eventually depress the demand for the services. Lower fees may create an incentive to purchase the services and encourage certain actions. Either of these conditions may be a desirable effect to the City. However, the level of the fees that would cause demand changes is entirely unknown, and the monopolistic nature of some City services (citizens can't go elsewhere for lower prices) could also influence demand in unknown ways. The User Fee Study did not attempt to evaluate the economic or behavioral impacts of higher fees, but the City should consider the potential impacts of these issues when deciding on fee levels.

Legal Compliance

By following the standards set forth in the Government Code, this User Fee Study identified the full cost recovery fee levels. Nevertheless, the City could choose to ignore the fee limitations for non-discretionary service and establish fee levels in excess of full cost. There may even be a low risk of challenge in some areas. Nevertheless, Wohlford Consulting recommends that the City always make fee-setting decisions that maintain compliance with both the spirit and letter of established legal standards.

Political Impacts

As a public body of elected officials, the City Council may be forced to consider various political issues that arise from fee changes. The comparability of fees to neighboring communities may affect the levels, as Menlo Park may not want to appear to be "expensive" in comparison. Also, increased fees will impact specific interest groups that may enjoy favor with the City Council and/or staff.

Fee Comparison Issues

With the availability of the cost results from this study, including a sample survey of neighboring cities' fees, the City is able to conduct a comparison of its costs and/or fees with neighboring or similar cities. While such a comparison is often an attractive concept to local government when considering fee setting, the City should recognize a number of significant limitations that affect the validity and reliability of comparisons.



Direct comparisons of fee levels across the surveyed cities are somewhat limited, due to the wide differences in fee structures, definitions, and program types. The value of the comparison is to permit the City to develop a sense of its place in the range of fee levels among comparative cities, and not to establish a clear understanding of their specific cost circumstances. In fact, the comparison results do not, in any way, indicate the cost of the services provide by the various jurisdictions. This situation may exist for a variety of reasons, including:

- Many cities have not conducted an actual cost study, so their fees may be based upon historical or other subjective factors unrelated to cost.
- Most cities do not publish their subsidy rates, so their fees may be subsidized (knowingly or unknowingly). Even if they have completed a cost study, there is often no way to know whether cost subsidies exist.
- The services included in fees may be combined in some cities and separated in others, thus making direct comparisons unreliable.
- The methodology used to determine the fees in other cities may be deficient or designed to recover less than full cost.
- Other jurisdictions may have different policy goals and considerations that affect the level of cost they desire to recover.

Even if the studies treated the costs equally, there are number of factors that would create legitimate and reasonable variances in costs between different cities. These cost factors include:

- Salaries and benefits
- Services and supplies
- Overhead levels (department, division, and administrative)
- Post Employment Benefits (OPEB)
- Leave time (holiday, vacation, sick)
- Other non-direct time (training, meetings, breaks)
- Capital costs (annualized)
- Cross-department costs
- Cost-recovery of associated services (e.g., General Plan update, code enforcement)
- Reserve contributions
- Staff longevity (affects the time necessary to complete tasks)
- Service levels (affect the number of associated tasks and the overall time necessary to complete fee services)
- Efficiency

With the potential for numerous extraneous factors to affect the differences in fee levels between cities, it is important to realize that the value of a fee comparison is generally limited to market-based decision-making. There is very little relevance of current fee levels in other cities to the actual costs and current subsidies in Menlo Park.



Cost “Reasonableness”

A common question posed at the conclusion of a User Fee Study, particularly when reviewing the results, is whether the data and results are “reasonable.” Although the scope of this study did not include an evaluation of the service levels in the City, the following discussion attempts to address this surprisingly difficult question and a few of the surrounding issues.

In our experience, the notion of “reasonableness” is a function of many different definitions and assumptions. The most basic consideration is whether the reasonableness standard applies to the *cost of the service* or to the *fee charged*--which can be two entirely different issues.

The reasonableness of a fee is largely a policy matter after cost has been established, since each individual’s perspective influences his definition of “reasonableness.” For example, whether a particular fee is considered reasonable certainly depends on if you are the person paying the fee or a disinterested party. Concepts of subsidization are also important to consider—particularly when the potential fee payer is making a personal profit off of the actions of the City (e.g., private developers). Political considerations, jurisdictional comparisons, economic sympathy, desired incentives and disincentives, and historical trends may also play a part in the determination of fee reasonableness. Wohlford Consulting can outline these issues with City leadership and the Council.

A User Fee study is initially intended to establish the true cost of providing individual services. In fact, the most common standard for this analysis, primarily applied to property-related fees, as directed by the California Government Code, is that the fees can be no greater than the “estimated reasonable cost” of providing the service for which a fee is charged. Unfortunately, there is no such thing as a “best practice” or specific “reasonableness” definition or standard for providing individual services—and, by extension, knowing the best universal cost level. In our experience with dozens of jurisdictions, the only commonality is difference. Despite some claims, attempts to create a standard through rough statistical analysis of past data are problematic, at best, and imply a level of accuracy and meaningfulness that just does not exist. The cost components, service structures, staffing arrangements, services levels, overhead levels, and many other factors vary widely (and legitimately) among even neighboring jurisdictions.

Menlo Park’s User Fee Study employed quality control measures to ensure that the analysis identified the most accurate and *reasonable* costs for the City’s *current operations*.

This level of analysis was sufficient to meet the City’s current needs for fee setting. However, to the extent that the City defines “reasonableness” as including an evaluation of the most efficient and effective operational practices, the scope of this User Fee Study was not inclusive. A true “best practices” evaluation and determination of cost “reasonableness” based upon an idealized approach almost always requires a more robust management study, including meaningful observations of those practices, operational reviews, comprehensive line staff interviews, concept definition processes, and a wider scope of investigation and analysis. Anything short of this full analysis would lack credibility, utility, and relevance. Conclusions based upon an insufficient study would be irresponsible and contrary to the interests of the City.



Enhanced Fee Flexibility

The time estimates and cost results in this study represent the departments' best estimates for workload they normally expect to encounter for the types of activities they have experienced in the past. Since unforeseen circumstances and requests are possible, the departments will need some flexibility in their fees to handle new or anomalous situations. In these situations, the departments can identify the additional resource needs and apply the hourly rates established for this study. To facilitate use of these rates, the City Council should grant the authority to charge these supplemental fees, by including them in the approved fee ordinance or resolution.

Implementation Issues

Following the conclusion of the User Fee Study and City Council approval of revised fees, the City of Menlo Park will be faced with the practical task of implementing the new fees. While the City is responsible for developing a successful project plan for implementation, the information and advice included in the following discussions may help the implementation process and/or give the City some further considerations.

Timing

To ensure more accurate revenue and service expectations, it is important for the City to recognize the realistic limitations to a speedy implementation of new fees.

1. In addition to the mandated noticing and public hearing requirements, the City is prohibited from charging the new development fees until at least 60 days following approval by the City Council (Government Code § 66017).
2. The City will also be faced with a series of practical and customer service limitations. Fee schedules must be produced and published in the usual places (brochures and handouts, website, staff handbooks). The City's permit systems must be updated to reflect the new fee levels. Staff must be trained on new fee structures and/or procedures in some instances. Fortunately, if planned effectively, City staff can complete many of these administrative tasks while waiting for the legal waiting period to pass.

Permit Systems

The User Fee Study did more than just calculate the full cost of existing services. In many cases the consultant and department staff reorganized or otherwise modified the existing fee structures. We added new fees, deleted obsolete fees, combined fees, and established entirely new approaches for some. As a result, the City will need to modify the structure and organization of the fees in the permitting systems used by the departments before any new fees go into effect.

Phasing

Due to the length of time since the last fee study, some fees may be subject to dramatic increases. These increases (and the actual costs to provide City services) will likely surprise the public and



others who are not generally familiar with the true cost of government services. If the City plans to institute significant fee increases for these services, it should consider “phasing in” the fees over a number of months and years to minimize the impacts to local businesses and citizens and to give them a chance to plan for the fees for future activities.

Public Communication

Our consistent experience is that public and interest group acceptance of new or increased fees can be enhanced through an awareness campaign and direct communication with affected parties. Having the opportunity to review the fees (and perhaps the analysis behind them) builds confidence in the credibility of the analysis and reduces objections significantly. Conversely, last-minute notices cause the community to question the veracity of the fee analysis and City motives behind the apparently rushed approval process.

The public communication needs associated with fee changes vary by department, and perhaps by the types of fees. Each department should develop a public notification and communication plan that is appropriate for the types of fees affected, the degree of potential fee changes, and the customer base and others affected by the changes.



CONCLUSION

The City of Menlo Park engaged *Wohlford Consulting* to conduct an objective analysis of the full costs incurred by the City in support of various activities for which the City charges user fees. The consultant used high-quality study processes and a unit cost build-up methodology to identify the full cost for individual fee activities.

Through this study, the City of Menlo Park now has a more complete understanding of the full cost to provide City user fee services to the community. With this information, the City can more fully consider the public policy and financial implications of its current approach to cost recovery for these services. The end result can be a new fee schedule that is based upon informed consideration and rational decisions.



APPENDIX 1:
COST RESULTS FOR BUILDING

The follow pages contain a summary of the results for Community Development / Building.



APPENDIX 2:

COST RESULTS FOR COMMUNITY SERVICES AND RECREATION

The follow pages contain a summary of the results for Community Services and Recreation.



APPENDIX 3:

COST RESULTS FOR ENGINEERING AND PUBLIC WORKS

The follow pages contain a summary of the results for Engineering and Public Works.



APPENDIX 4:
COST RESULTS FOR PLANNING

The follow pages contain a summary of the results for Community Development / Planning.



APPENDIX 5:
COST RESULTS FOR POLICE

The follow pages contain a summary of the results for the Police Department.