



# **CITY OF NEWPORT BEACH**

## **ECONOMIC DEVELOPMENT COMMITTEE**

### **AGENDA**

**MEETING DATE:** Wednesday, March 19, 2008  
**TIME:** 8:00-9:00 A.M. *Please arrive 5 min. prior*  
**PLACE:** City of Newport Beach Council Chambers

Roll Call and Introductions

#### **MEMBER UPDATES AND ANNOUNCEMENTS**

#### **DISCUSSION ITEMS**

1. Approval of Minutes of February 20, 2008
2. Presentation on the Resort at Pelican Hill by Ellen Adelman, Vice President Marketing & Sales for Irvine Co. Resort Properties
3. Presentation on the 2008 Newport Beach Film Festival by Gregg Schwenk
4. Review of Cost of Services Study by Glenn Everroad, Revenue Manager
5. EQAC Representative's Report

#### **ITEMS FOR A FUTURE AGENDA**

#### **PUBLIC COMMENTS**

#### **ADJOURNMENT**

**NEXT EXECUTIVE COMMITTEE MEETING: Wednesday, April 2, 2008  
8:00 A.M. – NEWPORT BEACH CHAMBER OF COMMERCE**

**NEXT REGULAR MEETING: Wednesday, April 16, 2008  
8:00-9:00 A.M. – CITY COUNCIL CHAMBERS**

# CITY OF NEWPORT BEACH



## GENERAL FUND USER FEE STUDY FINDINGS

FEBRUARY, 2008

PREPARED BY:



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# I. EXECUTIVE SUMMARY

## INTRODUCTION

Public Resource Management Group (PRM) is pleased to present the City of Newport Beach (City) with this summary of findings for the cost of services study for fee-related activities.

The City has not undertaken a detailed cost of services study since 1996. Since that time, the City has made cost of living adjustments to the original calculations, but has largely maintained the fee structure that had been adopted. The City is interested in accurately reporting the true cost of providing various fee-related services, and exploring the possibilities of modifying current fees to better reflect the increasing cost of providing services over time. The City contracted with PRM to perform this cost analysis using the adopted 2006-2007 fiscal year budget and staffing information. Additionally, all other staff information was provided through the period ending December 2007. Fees should be reviewed on a regular basis and adjusted in accordance with established city policies on user fee cost recovery. Typically a detailed study, such as this, is undertaken every 3-5 years with CPI adjustments in the intervening years.

This report is the culmination of the past twelve months work between PRM and city management and staff. PRM would like to take this opportunity to acknowledge all city management and staff who participated on this project for their efforts and coordination. Their responsiveness and continued interest in the outcome of this study contributed greatly to the success of this study.

## STUDY SCOPE AND OBJECTIVES

This study included a review of fee-for-service activities within the following departments/divisions:

- Building
- Planning
- Public Works - Engineering
- Police
- Fire – Prevention and EMS
- Recreation & Senior Services
- Revenue
- Code & Water Quality Enforcement
- Utilities
- Library

The study was performed under the general direction of the Revenue Manager with the participation of the above-mentioned departments and divisions. The primary goals of the study were to:

- Define what it costs the city to provide various fee-related services.
- Determine whether there are any opportunities to implement new fees.
- Identify service areas where the City might adjust fees based on the full cost of services and other economic or policy considerations.
- Develop revenue projections based on recommended increases (or decreases) to fees.
- Provide comparative data for local jurisdictions and other PRM clients.

The information summarized in this report addresses each of these issues and provides the City with the tools necessary to make informed decisions about proposed fee adjustments and the resulting impact on general fund revenues.

## STUDY FINDINGS

While the purpose of this study is to identify the cost of fee-related activities, one of the outcomes of the analysis is to provide a complete picture of the full cost of all services offered. It is necessary to identify *all* costs, whether fee-related or not, so that there is a fair distribution of all citywide and departmental overhead costs (discussed in the following section of this report) across all activities, thereby ensuring a definitive relationship between the cost of the service and the fee that is charged. No service should be burdened with costs that cannot be directly or indirectly linked to that service.

Therefore, the first task in this study is to separate the fee-for-service activities from the non-fee activities. Some non-fee related activities are appropriately funded by general fund monies (or other special revenue or impact fee sources), such as most public safety services or capital improvement projects. The costs of these other services are identified and set aside from the user fee services.

Exhibit I below displays the split of the total costs of each department (including citywide and departmental overhead) into either user fee-related or other service costs. Of the \$66 million in total costs analyzed, \$21.9 million (or 33%) of that total is related to user fee services. It is this \$21.9 million that is the focus of this study and represents the total potential for user fee-related revenues for the City.

### Exhibit I

#### Total Costs by User Fee Area

Source - Fiscal Year 2006-2007

<i>Department</i>	<i>Total Costs</i>	<i>Costs, User Fee Services</i>		<i>Costs, Other Services</i>	
Revenue	\$1,864,489	\$507,246	27%	\$1,357,243	73%
Engineering	\$5,558,206	\$783,520	14%	\$4,774,686	86%
Utilities	\$963,067	\$487,958	51%	\$475,109	49%
Recreation	\$9,116,018	\$6,435,669	71%	\$2,680,349	29%
Library	\$6,563,193	\$634,220	10%	\$5,928,973	90%
Planning	\$3,053,238	\$2,342,137	77%	\$711,101	23%
Fire - Prevention	\$1,563,364	\$845,020	54%	\$718,344	46%
Fire - EMS	\$2,979,332	\$2,963,197	99%	\$16,135	1%
Police	\$27,867,904	\$1,290,788	5%	\$26,577,116	95%
Code Enforcement	\$984,253	\$52,217	5%	\$932,036	95%
Building	\$5,620,661	\$5,620,661	100%	\$0	0%
<b>Total:</b>	<b>\$66,133,725</b>	<b>\$21,962,633</b>	<b>33%</b>	<b>\$44,171,092</b>	<b>67%</b>

The next exhibit (following page) identifies the source of funds for the user fee services. Exhibit II breaks down the \$21.9 million in user fee services between costs that are currently recovered through user fee charges and the remaining subsidy. Overall, the City is experiencing a 58% cost recovery level for its fee-related services. Within each department, current cost recovery levels range from 4% for Revenue to 98% for Fire Prevention. The information about individual fees may be found in subsequent sections of this report.

**Source of Funds**  
~ User Fee Activities ~

Source - Fiscal Year 2006-2007

<i>Department</i>	<i>Costs, User Fee Services</i>	<i>Funded by User Fees</i>		<i>Subsidy</i>	
Revenue	\$507,246	\$19,261	4%	\$487,985	96%
Engineering	\$783,520	\$482,913	62%	\$300,607	38%
Utilities	\$487,958	\$179,418	37%	\$308,540	63%
Recreation	\$6,435,669	\$2,735,227	43%	\$3,700,442	57%
Library	\$634,220	\$30,150	5%	\$604,070	95%
Planning	\$2,342,137	\$1,494,624	64%	\$847,513	36%
Fire - Prevention	\$845,020	\$830,752	98%	\$14,268	2%
Fire - EMS	\$2,963,197	\$2,888,664	97%	\$74,533	3%
Police	\$1,290,788	\$247,733	19%	\$1,043,055	81%
Code Enforcement	\$52,217	\$6,300	12%	\$45,917	88%
Building	\$5,620,661	\$3,852,582	69%	\$1,768,079	31%
<b>Total:</b>	<b>\$21,962,633</b>	<b>\$12,767,624</b>	<b>58%</b>	<b>\$9,195,009</b>	<b>42%</b>

Exhibit II indicates that user fees recover 58% of full cost, leaving 42% or \$9,195,009 to be funded by other funding sources. This \$9.2 million represents a “window of opportunity” for the City to increase fees and general fund revenues, with a corresponding decrease in the subsidization of services by the general fund. While it is not likely (nor would PRM recommend) that the City completely recover all costs through increased or new fees, it is possible for the City to implement moderate increases to current fees and new fees for some services.

The study's primary objective is to provide the City's decision-makers with basic data needed for setting fees. This report details the full cost of services, and presents proposed fees and projected revenues based on recommended user fee cost recovery levels. Recommendations were based upon careful consideration of the results of the cost analysis, historical cost recovery levels, and market comparisons of other cities.

Exhibit III below summarizes the financial analysis of the City's user fee program. It is estimated that adoption of the recommended cost recovery policy would increase the specified fee revenue by \$5,036,808 (a 39% increase over the revenue currently being collected for these activities by the City on an annualized basis). This would bring the overall cost recovery level up to 81% for these activities.

Exhibit III

## User Fee Revenue Analysis ~ Recommended Revenues ~

Source - Fiscal Year 2006-2007

Department	Costs, User Fee Services	Subsidy	Revenues @						
			Current Fees		Recommended Recovery		Increased / (Decreased) Revenue		
Revenue	\$507,246	\$487,985	96%	\$19,261	4%	\$507,246	100%	\$487,985	2534%
Engineering	\$783,520	\$300,607	38%	\$482,913	62%	\$725,683	93%	\$242,770	50%
Utilities	\$487,958	\$308,540	63%	\$179,418	37%	\$490,970	101%	\$311,552	174%
Recreation	\$6,435,669	\$3,700,442	57%	\$2,735,227	43%	\$3,428,068	53%	\$692,841	25%
Library	\$634,220	\$604,070	95%	\$30,150	5%	\$30,150	5%	\$0	0%
Planning	\$2,342,137	\$847,513	36%	\$1,494,624	64%	\$2,324,803	99%	\$830,179	56%
Fire - Prevention	\$845,020	\$14,268	2%	\$830,752	98%	\$845,020	100%	\$14,268	2%
Fire - EMS	\$2,963,197	\$74,533	3%	\$2,888,664	97%	\$2,963,197	100%	\$74,533	3%
Police	\$1,290,788	\$1,043,055	81%	\$247,733	19%	\$972,524	75%	\$724,791	293%
Code Enforcement	\$52,217	\$45,917	88%	\$6,300	12%	\$52,217	100%	\$45,917	729%
Building	\$5,620,661	\$1,768,079	31%	\$3,852,582	69%	\$5,464,554	97%	\$1,611,972	42%
<b>Total:</b>	<b>\$21,962,633</b>	<b>\$9,195,009</b>	<b>42%</b>	<b>\$12,767,624</b>	<b>58%</b>	<b>\$17,804,432</b>	<b>81%</b>	<b>\$5,036,808</b>	<b>39%</b>

## METHODOLOGY

A cost of service study analyzes two components of costs: the direct costs associated with providing each fee-for-service activity, and the indirect costs that support these activities. A brief discussion of each of these components follows. (A complete, detailed report of calculations is provided as an attachment to this report).

**Direct Costs.** The direct costs associated with fee-for-service activities were analyzed in great detail in this study. PRM worked with staff within each of the ten divisions to develop the analysis that is summarized in the following sections of this report. The fiscal year 2006-2007 adopted budget was used to identify direct costs.

The first step in the process was to identify staff time spent directly on each of the user fee activities. Each staff person involved in the user fee services identified time spent to complete each task associated with all user fee services. Annual volume statistics were also gathered in order to develop total annual workload information. Salary and benefit dollars were assigned to the time estimates to come up with the direct staff costs.

**Indirect Costs.** A proportionate share of other operating expenses and internal department administrative costs were layered onto the direct costs as departmental overhead. Citywide overhead costs coming from the cost allocation plan (described below) were also added in as indirect overhead. These two items were components of the indirect costs: 1) departmental overhead, and 2) citywide overhead. The cost of each activity is then compared to the fee currently charged, and the extent of cost recovery is identified.

**Cost Allocation Plan.** Many of the costs that support all city programs and services are budgeted in centralized activities such as 1) Administrative Services, which provides payroll, budgeting, accounting and

information systems support, 2) General Services, which provides building maintenance and custodial services, and 3) City Manager, which provides public information and general government support services. The costs of these activities and other centralized services are considered indirect overhead that support fee-for-service activities, as well as other programs and functions within the city.

As part of this study, PRM developed an indirect cost allocation plan that identifies and distributes these indirect costs to all operating programs and functions within the City's organizational structure. The cost allocation plan takes a detailed approach to analyzing indirect costs. PRM interviewed staff and analyzed data within each central activity to determine:

1. What indirect support functions are provided (e.g. payroll, legal services, building maintenance, etc).
2. How to allocate centrally budgeted personnel and other operating expenses into these functions.
3. Which departments receive benefit from these services (e.g. payroll services benefit all departments that have budgeted staff, City Hall maintenance benefits all departments that are housed within City Hall).
4. How to identify the best method of allocating these costs to the users (e.g. information technology services are allocated based on the number of users and applications in each department).

The end result of this analysis is the allocation of all indirect costs to all operating departments and programs. The indirect costs are then added to the direct costs to determine the full cost of all city operations – whether fee-related or not. This accounting exercise is important in that it can result in an increase in general fund revenues for reimbursement of support for user fee services and state or federally funded programs.

The next section is a discussion about economic and policy considerations which may help facilitate the discussion on what cost recovery levels are appropriate for Newport Beach. To assist in that discussion, PRM offers the following comments relative to what we have seen in other agencies:

- Development-related fees (planning and building) generally should have high cost recovery levels (at or close to 100%). Exceptions may be made for services such as appeal fees, or those provided exclusively to residential applicants.
- Recreation and other community services fees generally have very moderate cost recovery levels. Many programs continue to be provided free of charge, regardless of cost. Youth and seniors programs tend to have the lowest cost recovery levels (15% to 50%). Miscellaneous classes tend to have moderate cost recovery levels (50% to 85%), and adult sports programs have higher cost recovery levels (60% to 85%).
- No fee should be set higher than 100% cost recovery, without disclosure about the reasons why (e.g. a fine or penalty element, or the acknowledgement of one activity subsidizing another).
- If the proposed fee increase is significant, many agencies will opt to phase in the increase over a period of three to five years.
- Comprehensive reviews should be undertaken every three to five years, with minor cost of living adjustments made on an annual basis.

## ECONOMIC & POLICY CONSIDERATIONS

Calculating the true cost of providing city services is a critical step in the process of establishing user fees and corresponding cost recovery levels. Although it is the most important factor, other factors must also be given consideration. City decision-makers must also consider the effects that establishing fees for services will have on the individuals purchasing those services, as well as the community as a whole. The following economic and policy issues help illustrate these considerations.

- It may be a desired policy to establish fees at a level that permits lower income groups to participate in services that they might not otherwise be able to afford.
- A consideration of community-wide benefit versus specific benefit should be considered for certain services (e.g. teen after-school programs).
- In conjunction with the second point above, the issue of who is the service *recipient* versus the service *driver* should also be considered. For example, code enforcement activities benefit the community as a whole, but the service is driven by the individual or business owner that violates city code.
- Elasticity of demand is a factor in pricing certain city services; increasing the price of some services results in a reduction of demand for those services, and vice versa.
- Public sector agencies have a monopoly on providing certain services within its boundaries, such as development-related services. However, other services, such as recreation leagues and classes, may be provided by neighboring communities, and therefore demand for these services can be highly dependent on what else may be available at lower prices.
- Pricing services can encourage or discourage certain behaviors. Some examples of this would be to establish a low fee for a water heater permit to encourage homeowners to ensure their water heater is properly installed, or setting false alarm response fees on an incremental scale to discourage multiple false alarm calls.
- It may be impractical to establish a cost recovery system for some services or the collection of fees may be costly and difficult to administer. Some of the fees that are charged after a service has been provided might fall under this category, for example, false alarm response fees and code enforcement violations.
- A portion, 25%, of city staff long range planning costs were reallocated across current planning activities. Many cities chose to include higher amounts or none at all. This is a policy consideration that staff would like additional thoughts on.

## COST RECOVERY COMPARISONS

The chart below displays various city recovery levels. These numbers were taken from recent PRM clients. In order to provide Newport Beach with the greatest “apples to apples” comparison, please note that these clients have undertaken the same study as Newport Beach, using the same processes and methodologies.

### PLANNING

	Recovery rates	
	<i>current</i>	<i>recommended</i>
Campbell	26%	50%
Chino Hills	12%	50%
Cupertino	n/a	100%
Emeryville	34%	100%
Huntington Beach	83%	100%
La Habra	51%	n/a
La Mesa	19%	50%
Long Beach	71%	99%
Los Alamitos	7%	53%
Los Gatos	65%	100%
Placer County	n/a	100%
Whittier	41%	74%
Pittsburg	19%	49%
Santa Barbara	38%	n/a
Redlands	78%	99%
<b>Newport Beach</b>	<b>64%</b>	<b>99%</b>

### ENGINEERING

	Recovery rates	
	<i>current</i>	<i>recommended</i>
Campbell	55%	63%
Chino Hills	7%	66%
Cupertino	n/a	100%
Emeryville	81%	100%
Huntington Beach	75%	100%
La Habra	29%	n/a
La Mesa	41%	100%
Long Beach	53%	72%
Los Alamitos	24%	92%
Los Gatos	91%	100%
Placer County	n/a	100%
Whittier	52%	100%
Pittsburg	78%	82%
Santa Barbara	62%	n/a
Redlands	56%	96%
<b>Newport Beach</b>	<b>62%</b>	<b>93%</b>

### POLICE

	Recovery rates	
	<i>current</i>	<i>recommended</i>
Folsom	15%	68%
Hollister	61%	98%
Huntington Beach	69%	79%
La Habra	10%	n/a
Lemoore	52%	87%
Los Alamitos	39%	70%
Long Beach	25%	96%
Whittier	64%	70%
Pittsburg	59%	62%
Santa Barbara	32%	<i>not in scope</i>
Redlands	79%	97%
<b>Newport Beach</b>	<b>20%</b>	<b>77%</b>

### RECREATION

	Recovery rates	
	<i>current</i>	<i>recommended</i>
Antioch	69%	69%
Folsom	40%	44%
Hollister	64%	74%
Huntington Beach	62%	64%
Irvine	28%	n/a
La Habra	48%	n/a
Long Beach	44%	59%
Los Alamitos	55%	56%
La Mesa	41%	41%
Whittier	21%	29%
Pittsburg	26%	29%
Santa Barbara	43%	n/a
Redlands	16%	16%
<b>Newport Beach</b>	<b>43%</b>	<b>59%</b>

### FIRE - PREVENTION

	Recovery rates	
	<i>current</i>	<i>recommended</i>
Folsom	29%	100%
Hollister	47%	99%
Huntington Beach	56%	69%
La Habra	22%	n/a
Long Beach	94%	94%
Lemoore	73%	100%
Modesto	42%	100%
Redlands	22%	33%
<b>Newport Beach</b>	<b>98%</b>	<b>100%</b>