

# **Cost of Services Study (User Fees)**

## **Presentation of *Study Purpose, Methodology, Approach, and Findings***

September 19, 2017



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**WOHLFORD CONSULTING**

**Chad Wohlford, MPPA**

## **Today's Goals**

- **Understand Study Background, Concepts, and Methodologies**
- **Build Confidence in the Process and its Results**
- **Explain the Final Study Results**
- **Answer Questions**
- **Introduce Concepts for Fee Setting and Implementation**

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- **Project Consultant: Chad Wohlford, MPPA**
  - Practice owner & Dana Point's on-site consultant
  - 19+ years of cost and management consulting
  - 12+ years as a government analyst/manager
  - Former State Director (CA/NV) for a large national consulting corporation
  - Designated "expert witness" / published reference
- **Past Clients:**
  - 100+ projects & 240+ individual studies
  - 70+ cities, counties, states, and districts
  - 30+ program areas

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## PROJECT INTRODUCTION: Scope and Objectives

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## Cost Study Objectives

- ❑ Establish Objective and Transparent Fee Information
- ❑ Understand the *Full Cost* of Services
- ❑ Develop a Rational Basis for Setting Fees
- ❑ Understand Subsidies and Revenue Impacts
- ❑ Understand User Fee Principles & Context
- ❑ Enhance Fairness and Equity
- ❑ Ensure Compliance with State Law
- ❑ Simplify and Improve Fee Schedules

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## Cost Study Scope and Tasks

- Calculate costs for services (fee & non-fee) for Community Development and Public Works
- Identify potential new fees to adapt to current service schedule
- Identify ways to simplify and/or improve current fee structures to enhance customer service and improve staff administration
- Evaluate the cost of services of user fee activities at current or expected performance levels
- Not a management, operational, staffing, or efficiency analysis

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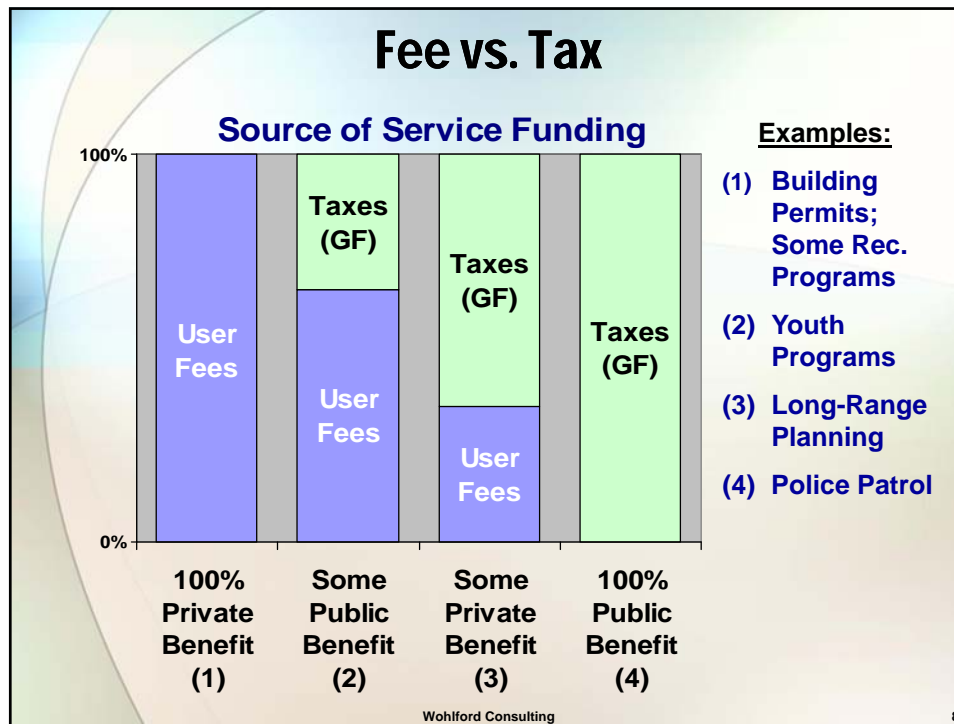
### User Fee Definition

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

**Not a Tax:**

- The service is usually a discretionary activity requested by the fee payer.
- If a User Fee *does not* cover the City's full cost for the service, taxes (General Fund) pay for the remainder.

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### Common Fee Concepts

**User Fees Should Be:**

- **Based on the Cost of Services:**
  - ✓ Not arbitrary
  - ✓ Not *unintentionally* subsidized or profitable
  - ✓ Not unfairly subsidized
  - ✓ “Estimated reasonable” cost standard
- **Fair and Equitable**
- **Consistent with City Goals / Objectives**
- **Compliant with State Law**
- **Dynamic (to address updates & anomalies)**

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## **Why are Fees Necessary?**

- **To recover the cost of services provided to individual members of the public**
- **Reductions of available General Fund dollars (e.g., state property tax shifts)**
- **Competing demands for General Fund resources**
- **General Fund does not cover the cost for direct services to private individuals**
- **Common taxpayers would have to fund private benefits and profits**

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## **COST STUDY APPROACH & METHODOLOGY**

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## Cost-Based Methodology Overview

- **Business-Case Cost Analysis:**
  - Rational / linear process (Unit Cost Build-up)
  - Analysis based upon the current City organization and business practices
  - Fees relate to staff effort
  - Fees vary based upon size and complexity
  - Not based on “tax” concepts or revenue goals
- **Calculation Factors:**
  - Staff time to complete activities and services
  - Direct and indirect cost of individual staff positions
  - Rational & fair distribution of overhead and support
  - Billable (cost-recovery) Hourly Rates
- **Full Cost = Potential Fee** (starting point)

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## Cost Study Methodology Summary

### Hourly Rate Calculation:

*Cost of Position / # of Billable Hours =  
\$ per hour*

### Full Cost Calculation:

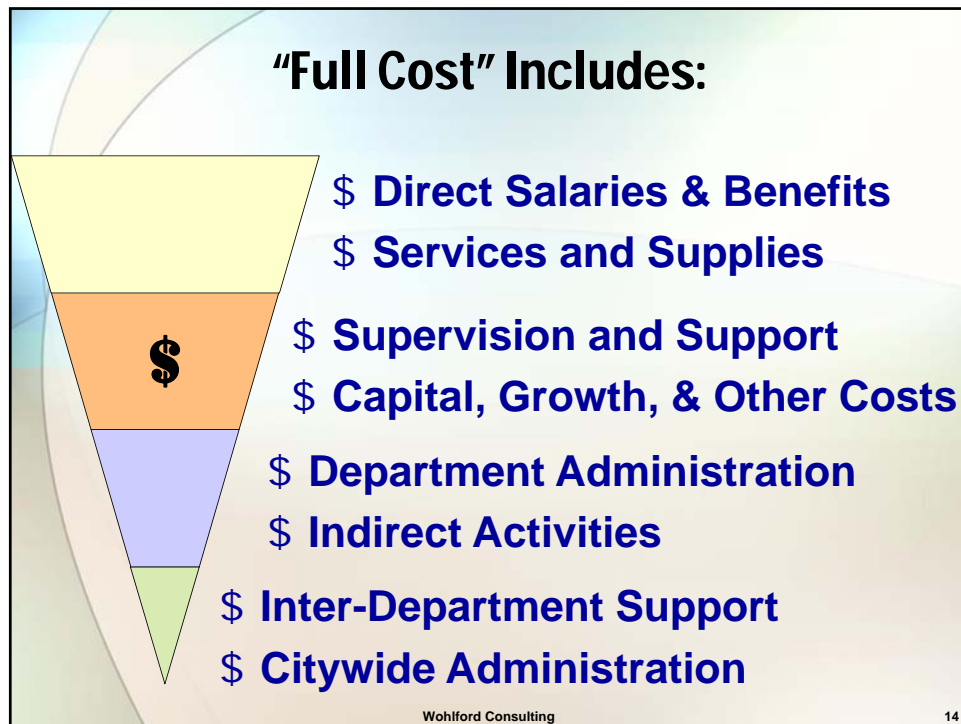
*\$ per hour x Time to complete task =  
Cost of Service*

### Other Factors:

- “Cost of Position” is the average salary and benefits, plus applicable direct and indirect (citywide overhead, division administration, training) costs.
- Indirect costs were spread to fee *and* non-fee categories proportionately.

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**Simplified Conceptual Approach (each fee)**

Service ("Fee") / Activity	Time to Complete 1 Activity (hours)	x	Cost- Recovery Hourly Rate	=	Full Cost or Potential Unit Fee	x	Annual Volume of Activity	=	Annual Cost or Potential Revenue
<b>FEE #1:</b>							<b>10</b>		
<b>Intake</b>	<b>0.5</b>		<b>\$ 100</b>		<b>\$ 50</b>		<b>10</b>		<b>\$ 500</b>
<b>Doc Review</b>	<b>1</b>		<b>\$ 100</b>		<b>\$ 100</b>		<b>10</b>		<b>\$ 1,000</b>
<b>Inspection</b>	<b>2</b>		<b>\$ 100</b>		<b>\$ 200</b>		<b>10</b>		<b>\$ 2,000</b>
<b>Filing</b>	<b>0.5</b>		<b>\$ 100</b>		<b>\$ 50</b>		<b>10</b>		<b>\$ 500</b>
<b>S&amp;B Total:</b>	<b>4.0 hrs.</b>		<b>\$ 100</b>		<b>\$ 400</b>		<b>10</b>		<b>\$ 4,000</b>
<b>Other Cost</b>					<b>\$ 100</b>		<b>10</b>		<b>\$ 1,000</b>
<b>TOTAL COST</b>					<b>\$ 500</b>		<b>10</b>		<b>\$ 5,000</b>
<b>Current Fee</b>					<b>\$ 300</b>		<b>10</b>		<b>\$ 3,000</b>
<b>SUBSIDY</b>					<b>\$200</b>		<b>10</b>		<b>\$2,000</b>

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## Potential Subsidy (Gap) Analysis

Fee	Annual Volume of Activity	X	Current Fee	=	Annual Revenue @ Current Fee	-	Annual Full Cost (from the Fee Study)	=	Current Annual (Subsidy) / Surplus
Fee #1	10		\$ 300		\$ 3,000		\$ 5,000		\$ (2,000)
Fee #2	15		\$ 100		\$ 1,500		\$ 3,000		\$ (1,500)
Fee #3	20		\$ 50		\$ 1,000		\$ 1,000		\$ 0
Fee #4	25		\$ 20		\$ 500		\$ 300		\$ 200
Total:					\$ 6,000		\$ 9,300		\$ (3,300)

**\$ 3,300 = Annual Subsidy, Funding Gap, or  
Potential NEW REVENUE**

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## Quality Control Processes

- Guidance to Department staff
- Involvement of knowledgeable staff
- Applied experience  
(normal range – data/results)
- Reasonableness tests
- Balance and cross-check
- Challenge and questioning
- Historical review
- Internal Department review
- Consultant review

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## FINDINGS and RESULTS

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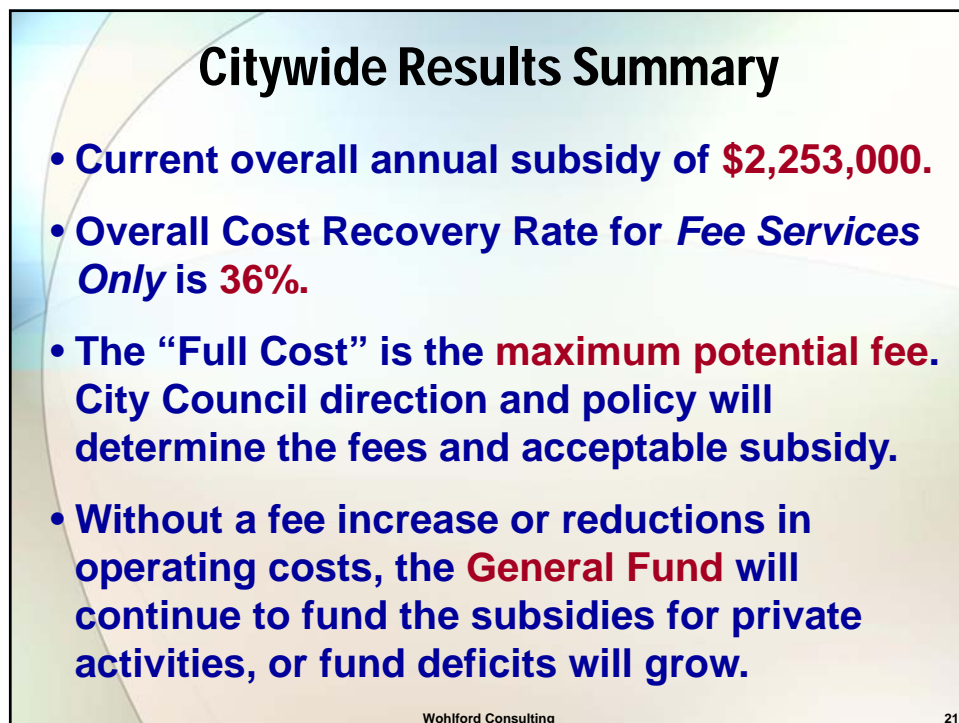
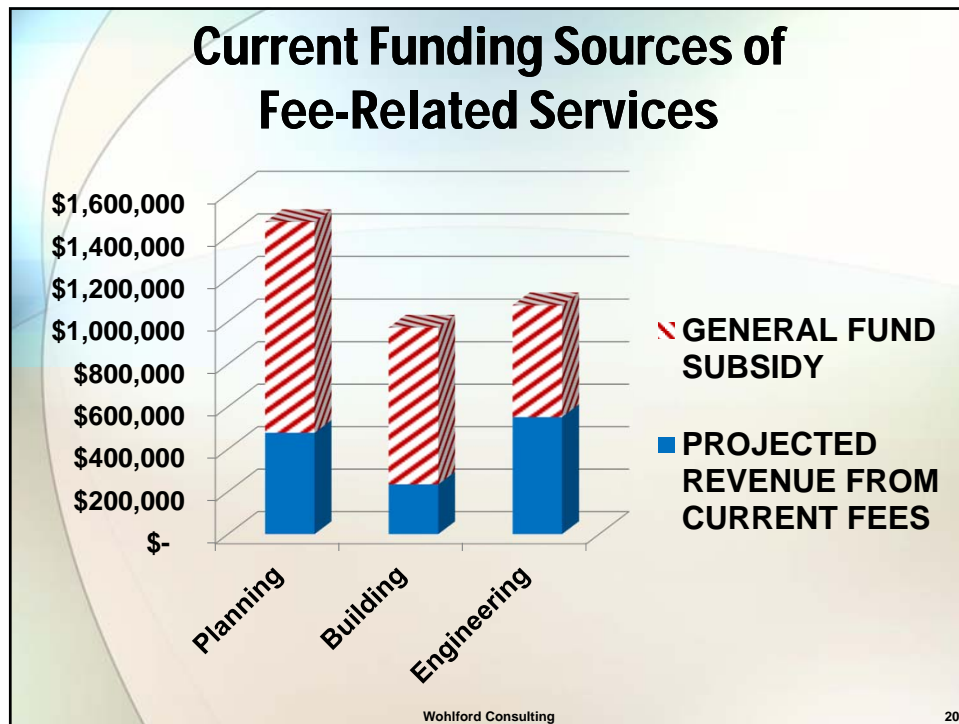
### Annual Full Cost Results Fee-Related Services

FEE AREA	FULL COST: Annual Cost of Fee- Related Services	PROJECTED REVENUE AT CURRENT FEES	PROJECTED SURPLUS / (DEFICIT)	PROJECTED COST RECOVERY RATE
Planning	\$ 1,467,000	\$ 477,000	\$ (990,000)	33%
Building	\$ 972,000	\$ 234,000	\$ (738,000)	24%
Engineering	\$ 1,076,000	\$ 551,000	\$ (525,000)	51%
<b>TOTALS:</b>	<b>\$ 3,515,000</b>	<b>\$ 1,262,000</b>	<b>\$ (2,253,000)</b>	<b>36%</b>

**Note:** These costs and projected revenues are comprised of only the fee-related services and associated overhead and support activities. These totals do not reflect the entirety of the programs.

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## Clarification of “Results”

- Study “Results” (report and tables) show the **FULL COST** of Services
- “Subsidy” or “Surplus” is the gap between the Fee and the Full Cost
- Actual future revenue levels will change:
  - Fee-setting by the City Council
  - Activity levels (market conditions)
  - Change in the “mix” of services and fees
  - Timing of the implementation of the fees and revenue collection
- All revenues are “projected” based upon the fee activity assumptions used for the study.
- Therefore, the City may not receive \$2.3M of new revenue

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## Sample UNIT COST Results (How to Read the Results Worksheets)

Fee Title	Current Fee / Deposit	Full Cost per Unit	Surplus / (Subsidy) per Unit	Full Cost Recovery Rate
Coastal Development Permit (Administrative) – Planning	\$ 347	\$ 4,853	\$ (4,506)	7%
Sign Permit (with Sign Program) – Planning	\$ 49	\$ 354	\$ (305)	14%
MPE Issuance & Base Permit Fee (combined) – Building	\$ 40	\$ 456	\$ (416)	9%
Certificate of Occupancy (New) – Building	\$ 48	\$ 309	\$ (261)	16%
Encroachment Permit & Insp. (Non-Res. Pavement Repl.) – Engineering	\$ 300	\$ 875	\$ (575)	34%
Encroachment Inspection (Storm Drain Connection) – Engineering	\$ 1,350	\$ 2,326	\$ (976)	58%

- Sample fees shown in order to demonstrate the results format for all fee areas (as presented in the consultant’s report).

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## Planning Full Cost Results

FULL COST: Annual Cost of Fee- Related Services	PROJECTED REVENUE AT CURRENT FEES	PROJECTED SURPLUS / (DEFICIT)	PROJECTED COST RECOVERY RATE
\$1,467,000	\$ 477,000	\$(990,000)	33%

- **100%** of current fees *under-recover* full cost
- **82%** of staff rates are less than full cost
- Average Staff rates are only **85%** of full cost
  - Affects deposit-based fees (e.g., larger projects)
- Deposit-based fee revenues = deposit
- Most service costs are recoverable, if desired

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## Building Full Cost Results (Non-Valuation)

FULL COST: Annual Cost of Fee- Related Services	PROJECTED REVENUE AT CURRENT FEES	PROJECTED SURPLUS / (DEFICIT)	PROJECTED COST RECOVERY RATE
\$ 972,000	\$ 234,000	\$(738,000)	24%

- **90%** of current fees (non-valuation) *under-recover* full cost
- **100%** of staff rates are less than full cost
- Average Staff rates are only **71%** of full cost
- Most service costs are recoverable, if desired
- Few Building fees are commonly subsidized

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## Valuation-Based Building Fees

- What are Valuation-based fees?
  - New Construction only
  - Based on standardized valuation tables
  - Fees set by square footage and building type
- Valuation fees were not included in the study.
  - Department was satisfied with current cost-recovery, so fee increases were not necessary
  - Industry familiarity with the valuation approach
  - Permit system and staffing disruptions to adapt
- What to do about valuation fees going forward
  - No increases are required now; monitor revenue

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## Engineering Full Cost Results

FULL COST: Annual Cost of Fee- Related Services	PROJECTED REVENUE AT CURRENT FEES	PROJECTED SURPLUS / (DEFICIT)	PROJECTED COST RECOVERY RATE
\$ 1,067,000	\$ 551,000	(\$ 525,000)	51%

- **100%** of current fees *under-recover* full cost
- **100%** of permanent staff rates are less than full cost
- Average Staff rates are only **69%** of full cost
- Most service costs are recoverable, if desired

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## General Findings

- All three departments/divisions currently have significant **fee subsidy**.
- Some (few) fees have a surplus, but greater numbers and volumes of subsidized fees result in **overall subsidies**.
- **96%** of current fees are subsidized.
- The primary cost-recovery opportunity is **increased fees** toward full cost, not new fees.
- Some opportunities exist to institute **new fees** for services already being provided.  
(Customers are currently receiving the services at no cost, or a new service is being instituted.)

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## General Findings (continued)

- Available / Billable hours (one measure of productivity and a component of the hourly rate calculations) are consistent with other studies.
- Almost all of the *current* Staff Hourly Rates are less than the full cost calculated in the study.
- Most *current* Staff Hourly Rates are lower than those from other cities' cost studies.
- Staff Hourly costs calculated in the study (results) are within the normal range of other cost studies.

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## FEE SETTING and IMPLEMENTATION CONSIDERATIONS

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### Reminder: User Fee Definition

#### User Fee:

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

#### Not a Tax:

- The service is usually a discretionary activity requested by the fee payer.
- If a User Fee *does not* cover the City's full cost for the service, taxes (General Fund) pay for the remainder.

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## Fee Setting (Pricing) Considerations

- **Fairness and Equity**
- **Consistency with City Public Policy**
  - Cost Recovery and Subsidization
  - Social Impacts / Affordability
  - Revenue Impacts
  - Activity Incentives / Disincentives
- **Impact on Market Factors**
  - Supply and Demand (elasticity)
  - Pricing
- **Legal Compliance**
- **Other Factors**
  - Comparable Fees
  - Constituencies Affected
  - Subsidies for selected services may be appropriate for public benefit.

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## Fee-Setting Considerations (Cont'd)

- The Cost Study identified the cost and subsidization of *current services* provided for development activity.
- Therefore, “new” fee revenues only *offset* the current subsidy and free-up General Fund resources for other City priorities.
- What is the “Public Benefit” of development activity to be reflected in cost-recovery standards?:
  - Does the Dana Point taxpayer (GF) receive a net benefit from private building projects (large and small)?
  - ...private planning projects?
  - ...commercial vs. residential?
  - How much is that benefit? (What should the subsidy % be?)
  - State codes authorize up to 100% cost recovery, and most cities & counties now seek that level after a cost study.

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## What Should Dana Point Do?

### Should Dana Point subsidize user fees?

- ☐ Should community taxes pay for private development?
- ☐ Should community taxes pay for individual projects?
- ☐ Should some projects (type or size) subsidize others?
- ☐ What is the general public benefit of development reviews?
- ☐ Should the departments / divisions be self-sustaining?
- ☐ Should funding for staffing be dependent on the tax base, not development activity?
- ☐ How much should be subsidized? (ratios)
- ☐ What is fair, reasonable, and appropriate?
- ☐ What should the City's priorities for the General Fund be?
- ☐ Do user fees (not Impact fees) affect the market?
- ☐ Should fee types be treated differently (i.e., bldg vs plng)?

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## Implementation Considerations

- **Phasing:** Achieving cost-recovery goals over a longer time frame.
- **Cost-recovery levels:** Set a standard level or % of cost to recover or maximum level of increase.
- **Timing:** Schedule for when fees should go into effect, be updated, and/or achieve recovery goals.
- **Customer Service:** Communication & noticing, “grand-fathering” projects.
- **Future Updates:** Maintain cost-recovery performance with future cost increases.

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## ***QUESTIONS?***

For further information, please contact:

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## ***THANK YOU!***

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