



AGENDA REPORT

Meeting Date

01/24/2023

Prepared By: Cheryl Dyas, Director of Administrative Services
Budgetary Review By: Cheryl Dyas, Director of Administrative Services / City Treasurer
Submitted By: Dennis Wilberg, City Manager

Agenda Title

Comprehensive User Fee Study

Recommended Action

(1) Receive report from Staff and Willdan; (2) Open public hearing and receive public input; and (3) Adopt Resolution 23-xx Amending and Augmenting the City of Mission Viejo Master Fee Schedule.

Executive Summary

In 2018, the City contracted with Willdan Financial Services (Willdan) to complete a comprehensive user fee study. The City conducted the comprehensive study to determine cost of providing City services, in a manner that is consistent with applicable State laws, rules, and regulations governing the collection of fees and rates for charges by public entities. The current City of Mission Viejo Master Fee Schedule was adopted at the June 11, 2019 Council meeting. It is recommended that a review of cost of services and fees be performed every three to five years which is an industry best practice. The City contracted with Willdan to assist with a comprehensive update to the City's last user fee study. The comprehensive update was completed in June 2022. The objectives of the update were to:

- Develop a rational basis for setting fees
- Understand total costs of providing services
- Identify subsidy amounts, if applicable
- Identify appropriate fee adjustments that enhance fairness and equity
- Maintain consistency with local policy and objectives, and compliance with state law
- Develop updatable, comprehensive list of fees

Scope of Study

The study included a review of costs and related fees to provide services by the following departments and divisions:

- Animal Services
- Community Relations - Records Management; Mission Viejo Television (MVTV)
- Community Development - Building; Planning
- Library
- Public Works
- Recreation & Community Services
- Oso Creek Golf Course

As part of the adoption of the FY 2022-23 budget, the current and proposed fees reflected in the attached fee study for the Oso Creek Golf Course and the Recreation and Community Services Department were reviewed and discussed as part of a public hearing conducted during the June 28, 2022 City Council meeting. The proposed Recreation and Community Services Fees were approved as proposed. The Oso Creek Golf Course Fees were approved as proposed with the following amendment. The suggested increase of \$9.00 for all green fees for residents was reduced to \$5.00 for each category of green fee. The proposed \$9.00 increase for non-resident players was approved. The new Recreation and Community Services fees were effective on July 1, 2022 and the new Oso Creek Golf Course fees were effective July 11, 2022. All fees currently in effect can be viewed on the Finance Department webpage link here:

<https://cityofmissionviejo.org/departments/finance/master-fee-schedule>

The purpose of tonight's public hearing is to discuss the proposed fees for the following departments: Animal Services, Community Relations, Community Development, which includes both building and planning fees, Library and Public Works.

Conceptual Approach and Methodology

The basic concept of a user fee study is to determine "reasonable cost" of each service provided by the City for which it charges a user fee. The full cost of providing a service may not necessarily become the City's fee, but it serves as the objective basis as to the maximum amount that may be collected.

There are three methods of analysis for calculating fees used in the report, but the most used approach is the Standard Unit Cost Build-Up Approach. This approach estimates the actual labor and material costs associated with providing a unit of service to a single user. This approach is suitable when City staff time requirements do not vary dramatically for a service, or for special projects where the time and cost requirements are easy to identify at the project's outset. Further, the method is effective in instances when a staff member from one department assists on an application, service or permit for another department on an as-needed basis. Costs are estimated based upon interviews with City staff regarding the time typically spent on tasks, a review of available records, and a time and materials analysis. Alternative methods were used in instances when the Standard Unit Cost Build-Up Approach were determined to be impractical. For example, memberships and facility rentals rely on market factors or other considerations as opposed to actual costs.

The attached Comprehensive User Fees Study provides a more thorough description of the Project Approach and Methodology and the project manager from Willdan will be in attendance to provide an overview of the project and results of the study.

Cost Recovery Policy

The City's cost recovery policy was adopted in 2018. The purpose is to establish Citywide cost recovery policies by identifying cost recovery factors and conditions that should be considered for setting cost recovery target levels for each program offered by the City. An example of a factor would be the consideration that a service has a community-wide benefit versus a special benefit. An example of a condition would be that collection of a fee is not cost effective or will significantly impact the efficient delivery of the service. The policy further describe the conditions that favor setting fees at low, medium or up to full cost recovery levels. A copy of the current Cost Recovery Policy is provided as attachment D. Under the City's policy, cost recovery groups and target ranges are:

Cost Recovery Level Group	Cost Recovery Percentage Range
Low	10% - 30%
Medium	30% - 70%
Up to Full	70% - 100%

It is generally accepted that recovery of costs should be in direct proportion to the individual/specific gain for services received. For example, private development activity that benefits specific individuals generally is expected to pay fees that reflect 100% cost recovery. There are circumstances and programs which typically justify a subsidy such as youth, senior, and library services. The cost of these services are subsidized while the user receives benefits for which he or she does not fully pay. Targets and recommendations always reflect agency-specific judgments linked to a variety of factors, such as existing City policies, agency-wide or departmental revenue objectives, economic goals, community values, market conditions, level of demand, and others. These additional factors may result in advocating for less than full cost recovery of services, thereby intentionally subsidizing certain activities. Because this element of the Study is subjective, the report provides the full cost of service calculation information, when required under Prop 26, and the framework for considering fees, while Staff can provide additional information as to reasons why cost recovery levels are set below or above the City's cost recovery target levels. Ultimately, each fee is set at the City's discretion up to 100% of reasonable cost as specified in this report.

Public Notice Requirement

A public hearing is required for revisions to development related user fees. State law provides that proposed fee changes affecting development user fees require a minimum of 60 days lead time to take effect. Development related fee changes are recommended to take effect April 1, 2023. Non-development related fee changes are recommended to take effect July 1, 2023.

The public hearing was noticed on January 12, 2023 and again on January 19, 2023. Written notices of the hearing were sent by mail on January 5, 2023 to all interested parties on record with the City.

Fiscal Impact:

Amount Requested: \$

Sufficient Budgeted Funds Available?: (If no, see attached fiscal analysis)

Prog/Fund #: Category: Pers. Optg. Cap. -or- CIP#: Fund#:

Previous Relevant Council Actions for This Item

6-28-22 - Oso Creek Golf Course and Recreation and Community Services User Fees

Attachments

Comprehensive User Fee Study Report by Willdan

Notice of Public Hearing

Resolution

Appendix B

Appendix C


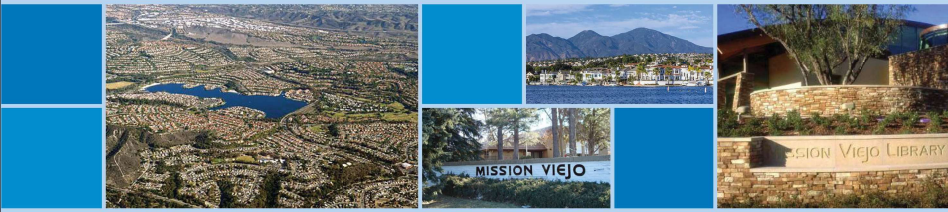
Cost Recovery Policies

PowerPoint

Presentation to the City of Mission Viejo


Comprehensive User Fee Study

January 24, 2023



What are User Fees?

- User Fees fund programs and services that provide private benefit to individuals requesting them, with limited or no benefit to the community as a whole
- State Law requires that 1) individual use of the service must be voluntary, and 2) fees must reasonably relate to the services provided



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What is a User Fee Study?

- Primary goal of a User Fee Study is to determine the “reasonable” full cost of providing services
- Each fee or service’s cost is calculated individually
- Develop fully burdened hourly rates for personnel
 - Salary & Benefit cost divided by billable hours
 - Layer on direct and indirect overhead as applicable to the position’s department and services provided
- Up to 100% of the full cost may be recovered
- The City may decide to set fees lower than full cost

Objectives of User Fee Study

- Develop a rational basis for setting fees
- Understand total costs of providing services
- Identify subsidy amounts, if applicable
- Identify appropriate fee adjustments that enhance fairness and equity
- Maintain consistency with local policy and objectives, and compliance with state law
- Develop updatable, comprehensive list of fees

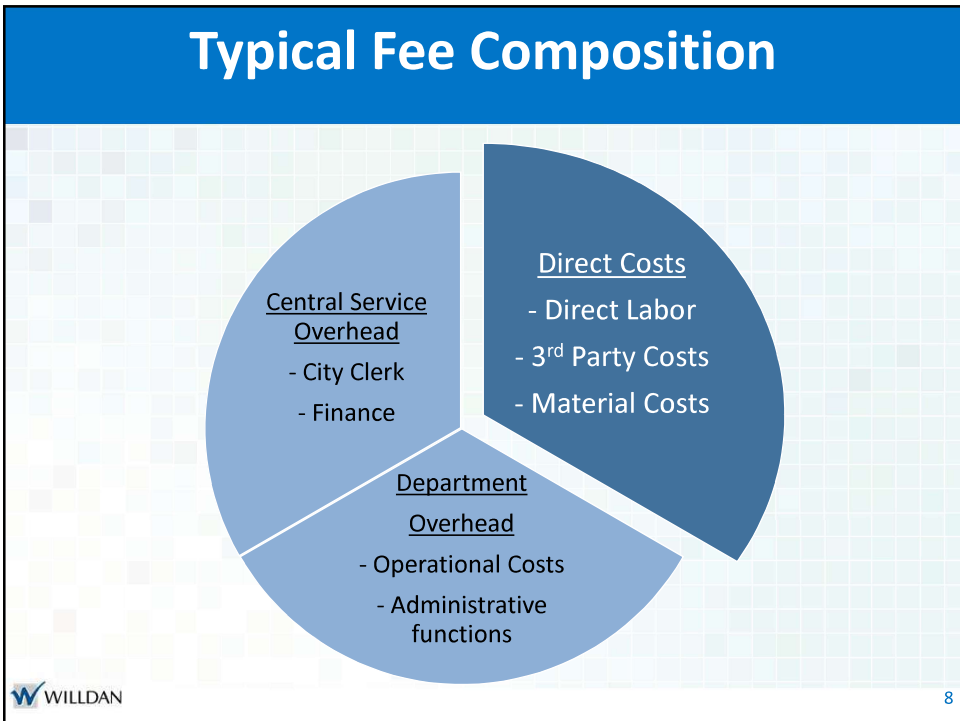
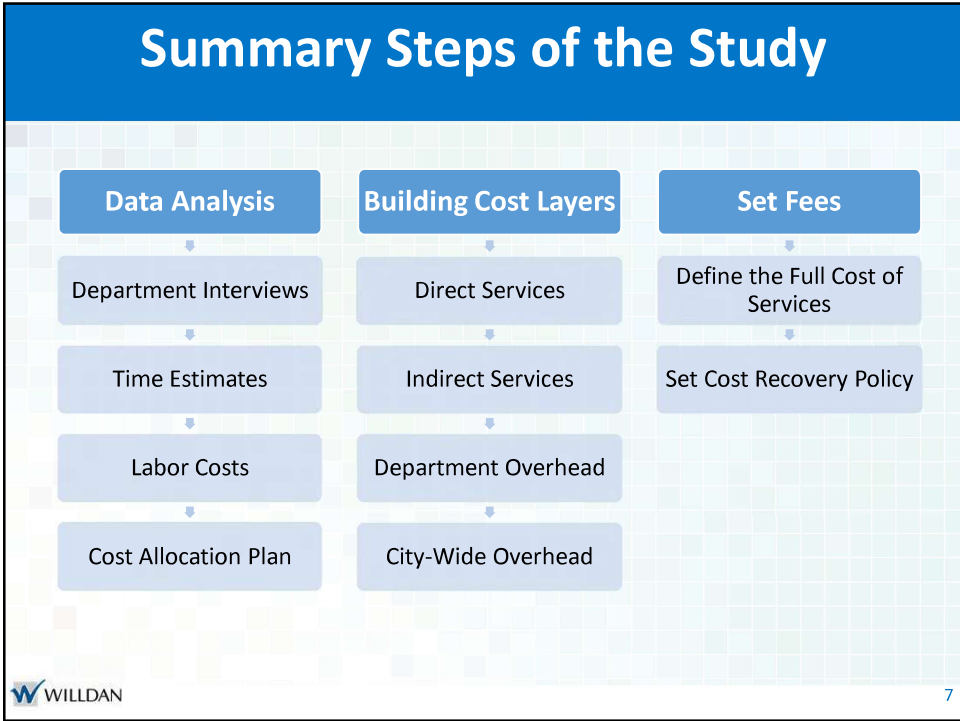
Scope of the Study

- Review and calculate cost of providing services and related fees charged by the following departments and divisions:
 - Animal Services
 - Building
 - Community Relations
 - Library
 - Planning
 - Public Works

Data & City Staff Participation

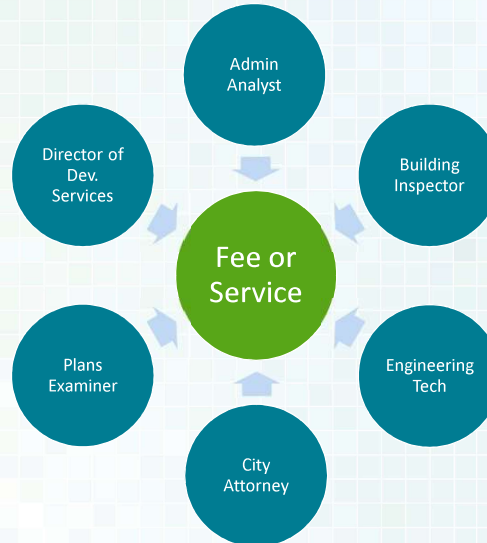
Willdan used the following to determine full cost of providing each service:

- Department budgets, Salary & Benefit information, other cost data
- Staffing Structures
- Central Service/Indirect Cost Allocation Plan
- Productive/billable hours
- Direct & Indirect work hours
- Time estimates to complete tasks
- Activity level and revenue for programs and services
- City/Department input, feedback and policies



Fee Cost Composition Example

- Fully Burdened Hourly rates predominately used to calculate full cost for fees
- Important to keep in mind all processes, personnel, and indirect support involved to calculate full cost for services



Animal Services

- Current fees largely subsidize the cost of providing service
- Suggested fees were set to fit to City's Cost Recovery Policy, with few exceptions. As a result:
 - There would be an increase to 2 fees
 - A decrease to 2 fees
 - 2 new fees would be added
 - 49 fees would remain as currently set
 - Average fee increase of 5%

Building

- Flat fees based on a time based analysis
 - All fees are below full cost recovery
 - Staff is recommending fees remain at current amounts
- Building Permit Fee Program
 - Valuation based fee program where size and complexity of project determines permit for service
 - Current cost recovery is 107%
 - Fees to be decreased by 7% to achieve full cost recovery

Community Relations

- Recommendation is to set most fees to fit to the City's Cost Recovery Policy
 - Current fees are below full cost recovery
 - Staff is recommending fees to remain at their current levels

Library

- Services included in Library are a mixture of fines, user fees, and rentals
 - Analysis on user fees shows that current fees largely under recover the cost of services, which is typical for libraries
 - There would be an increase to the NSF Check Charge fee by \$5 and the remaining fees remain as currently set

Planning

- Current fees are heavily subsidizing the cost of providing services
- The department utilizes deposit based services as well as flat fees
 - Hourly rates will be used to bill against deposits to recover cost
- The suggested fees are to bring Department services up to the Cost Recovery Policy for the City
 - There would be an increase to 3 fees and the remaining fees will stay at their current levels
 - The average fee cost recovery would remain at 66%

Public Works

- Many current fees are subsidizing the cost of providing services
- The department utilizes deposit based services as well as flat fees
 - Hourly rates will be used to bill against deposits to recover cost
- The suggested fees are to bring Department services up to the Cost Recovery Policy for the City
 - There would be an increase to 71 fees, a decrease to 13 fees, 33 fees would remain as currently set, and 1 new fee would be added
 - Average fee increase of 24%

Policy Considerations

- General standard: individuals or groups who receive private benefit from service should pay 100% of cost
- In certain situations, subsidization is an effective public policy tool:
 - Encourage participation
 - Ensure compliance when cost is prohibitive to residents
 - Allow access to services
- Recommended that City include an annual inflation factor which will allow City Council by resolution to annually adjust fees based on CPI or other factor

Questions

