

5/21/19

Item # 1



**City of
Santa Clara**
The Center of What's Possible

Finance Department
Memorandum

Date: May 20, 2019

To: Honorable Mayor and City Councilmembers

From: Linh Lam, Assistant Finance Director

Subject: May 21, 2019 Council Agenda Item #1: "Discussion and Review of User Fees for Cost of Services and Workplan to Evaluate User Fees"

The purpose of this supplemental is to note that Attachment #1, titled "Facility Rentals – Combined" should be disregarded. During the generation of the Council agenda package, this item was inadvertently attached. It was a working draft and should be disregarded.

POST MEETING MATERIAL

5/21/19

Item # 1

City of Santa Clara

Council Meeting

**Discussion and Review of User Fees for Cost of
Services and Workplan to Evaluate User Fees**

May 21, 2019



**City of
Santa Clara**
The Center of What's Possible

Agenda

- Overview
- Cost of Services Overview
- Proposed Workplan
- Presentation of Cost of Services Study by Matrix Consulting Group
- Policy Considerations
- Next Steps

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**City of
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The Center of What's Possible

POST MEETING MATERIAL

Overview

- Purpose of the presentation is the advancement of the priority to stabilize the City's fiscal outlook
 - To preserve service and staffing levels
 - Generate more revenue to meet expenditure growth
 - Develop strategies for unfunded needs/projects
- Revenue strategies that will be analyzed for Council consideration:
 - Increase in Cost of Services (User Fees)
 - Increase in Transient Occupancy Tax (TOT) rate
 - Evaluate the feasibility for a Utility User Tax (UUT)
 - Business License Tax or any other type of Business Tax

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Overview (cont.)

- At the City Council Goal and Priority Setting Session, the Council adopted the following budget principle related to cost recovery for fees:
 - With limited exceptions, establish fees based on full cost recovery where individuals/businesses rather than the community at-large are benefiting from City services. This preserves limited unrestricted resources for providing services that benefit the community as a whole.

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Overview (cont.)

- The last update to the fee schedule was approved by the City Council on May 8, 2018
- Contracted with Matrix Consulting Group in December 2018 to develop a comprehensive Cost of Services (User Fee) Study
- User Fees are described as fees for City services provided for the benefit of individual members of the public

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Overview (cont.)

- Cost of Services Study has identified fee areas where the City is under-collecting by approximately \$20 million
- There is a direct relationship between our Fees for Service and the City's staffing levels
- Subsidy for users results in less resources for investment in services, infrastructure, and staffing
- Imperative for Council to make policy decisions on Fees and level of subsidy

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Cost of Service Study

- The work accomplished by the consultant in the analysis of the proposed fees for service involved the following steps:
 - **Departmental Staff Interviews:** The project team interviewed Departmental staff regarding their needs for clarification to the structure of existing fee items, or for addition of new fee items
 - **Data Collection:** Data was collected for each permit/service, including time estimates. In addition, all budgeted costs and staffing levels for FY 18/19 were entered into the consultant's analytical software model

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Cost of Service Study (cont.)

- **Cost Analysis:** The full cost of providing each service included in the analysis was established. Cross-checks including allocation of not more than 100% of staff resources to both fee and non-fee related activities assured the validity of the data used in the Study.
- **Review and Approval of Results with City Staff:** Departments reviewed and approved these documented results.

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Proposed Workplan

- Due to the magnitude of information presented in the Cost of Services Study, Staff is proposing a workplan that is comprised of three phases:
 - **Phase I** – will include routine non-development related user fees (scheduled for adoption on June 25)
 - **Phase II** – will include development related fees which will allow for outreach to the development community
 - **Phase III** – will include fees that were brought forward during the study but that require more time for the consultant to review
- The date for presentations of Phase II and III of the workplan are anticipated to be in the August-September timeframe.

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Proposed Workplan (cont.)

Phase I

- Citywide fees (copy fees, technology fee, media fee)
- City Clerk
- Housing and Community Services Division
- Electric
- Finance
- Library
- Cemetery
- Recreation
- Police
- Deleted fees, New fees (Phase I divisions/departments) and Over-recovery fees

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Proposed Workplan (cont.)

Phase II – Development Related Fees

- Building Division
- Planning Division
- Fire
- Public Works
- Water Utility
- Sewer Utility
- New Fees (Phase II division/departments)

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Proposed Workplan (cont.)

Phase III – Fees that Require Further Study

- Off-site Parking fee
- Electric Bike/Scooter fee
- False Alarm fee
- Massage Program fees
- Temporary Street Pole Banner permit

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City of Santa Clara

Consultant Presentation

Discussion and Review of User Fees for Cost of Services and Workplan to Evaluate User Fees

May 21, 2019



Policy Considerations for Setting Fees

- **Limitations posed by an external agency.** The State or an outside agency will occasionally set a maximum, minimum, or limit the jurisdiction's ability to charge a fee at all. An example includes time spent copying and retrieving public documents for PRA responses.
- **Encouragement of desired behaviors.** Keeping fees for certain services below full cost recovery may provide better compliance from the community. For example, if the cost of a permit for changing a water heater in residential home is higher than the cost of the water heater itself, many citizens will avoid pulling the permit, which may lead to unsafe consequences.

Policy Considerations for Setting Fees (cont.)

- **Effect on demand for a particular service.** Sometimes raising the “price” charged for services might reduce the number of participants in a program. This is largely the case in Recreation programs such as camps or enrichment classes, where participants may compare the City’s fees to surrounding jurisdictions or other options for support activities.
- **Benefit received by user of the service and the community at large is mutual.** Many services that directly benefit a group or individual equally benefit the community as a whole. Examples include Recreation programs, Planning Design Review, historical dedications and certain types of special events.

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Policy Considerations for Setting Fees (cont.)

- There are programs, circumstances, and services that justify a subsidy from a tax based or alternative revenue source.
- It is essential that the Council prioritize the use of revenue sources for the provision of services based on the continuum of the benefit received.
- Past practice based on Council direction was to increase fees by maximum increments of 25% to the extent that such increases did not exceed cost recovery.
- Staff is requesting Council review the past practice to determine if the 25% year-over-year maximum increase is still the approach the Council desires to utilize.
- Council direction will be incorporated into the Municipal Fee Schedule that will be presented at the June 25, 2019 meeting.

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Next Steps

- Based on the information provided in this report, staff requests policy direction from Council regarding fees that they wish to continue to subsidize, and at what level to set cost recovery for remaining fees
- Staff will present Phase I of the fee update on June 25, 2019
- Dates for Phases II and III will be included on a future TMAC



City of Santa Clara

Council Meeting

**Discussion and Review of User Fees
for Cost of Services and Workplan to
Evaluate User Fees**

May 21, 2019



User Fee (Cost of Services) Study Results



Presentation Goals

- ◆ Introduction
- ◆ Present scope of services and study objectives
- ◆ Review legal framework
- ◆ Provide overview of basic costing methodology and approach
- ◆ Discuss Phase I summary of findings and results

Introduction to Matrix Consulting Group

- ◆ We are in our 17th year of providing financial and management analytical services to local government.
 - Cost of Services
 - Process Analyses
 - Management and Staffing Audits / Public Safety Review
- ◆ Project team
 - Courtney Ramos, Vice President – Project Manager
 - Khushboo Hussain, Sr. Manager – Lead Analyst
 - Jessica Mizenko, Sr. Consultant – Data Analyst
- ◆ Experience working with large and small jurisdictions across the US, and in the Bay Area.

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Project Background and Scope of Services

- ◆ The Matrix Consulting Group analyzed the cost of service relationships that exist between fees for service activities in the following departments:

Building	Electric Utility	Housing	Police
Cemetery	Engineering	Library	Streets
City Clerk	Finance	Parks and Rec	Water and Sewer Utility
City Manager	Fire	Planning	
- ◆ A Cost of Services (User Fee) Study allows the City to:
 - Update Fee Schedules to reflect current services
 - Ensure compliance with Prop 218 and 26
 - Determine current cost recovery level and target increased cost recovery

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Legal Framework

- ◆ User fees charged by local agencies "...may not exceed the estimated reasonable cost of providing the service for which the fee is charged".
- ◆ Parameters under which user fees can be established and administered are laid out:
 - California constitutional provisions - Propositions 13, 4, 218, and 26
 - State Government Codes 66014 and 66016
 - Attorney General's Opinion 92-506
- ◆ A user fee can be no more than necessary to cover the reasonable costs of the service provided.

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Fee Study Overview

- ◆ Provides a tool for understanding current service levels, the cost and demand for those services, and what fees for service can and should be charged.
- ◆ Documents fee related services and service level assumptions, as well as detailing the full cost associated with each permit or unit.
- ◆ Benefits / Uses:
 - Ensures compliance with State and local laws such as Prop 218 and 26
 - Identifies the full cost (direct and indirect) associated with providing fee-related services and the revenue gaps associated
 - Streamlines fee schedules to eliminate outdated fees or ranges
 - Incorporates new fees and services

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Methodology Overview

- ◆ A “bottom up” approach was employed, where time spent per unit of fee activity is determined for each position within a Department or program.
 - Widely accepted
 - Most defensible
- ◆ Update fee schedules and structures
- ◆ Calculate fully burdened hourly rates for each position
- ◆ Establish time estimates by position for each service provided
- ◆ Collect volume statistics to project workload and revenue impacts
- ◆ Analyze the gaps between cost and revenue

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Updated Fee Schedules

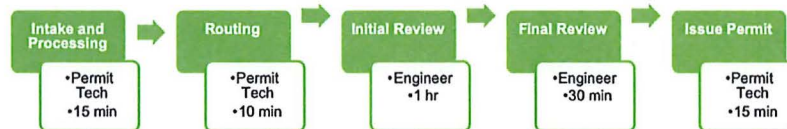
- ◆ Worked with staff to ensure that fee schedules for each department are reflective of current services being provided by City staff.
- ◆ Fees for service no longer being provided by City staff and / or being outsourced were eliminated from the City's fee schedule.
- ◆ Fee categories were expanded or reduced where appropriate to better reflect the level of effort to perform different types of services.

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Establishing Time Estimates

- ◆ Staff were asked to estimate the amount of time it takes to provide services at each step in the process.



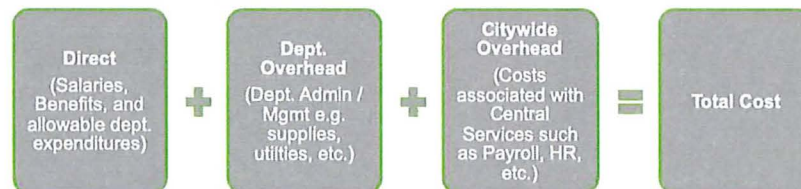
- ◆ Estimates are provided for each position involved.
- ◆ Estimates take into account desired service levels.
- ◆ Extraordinarily complex or simple projects are excluded from estimates.

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Determining Total Cost

- ◆ Once time spent for a fee activity is determined for each individual or position, applicable City costs are calculated.



- ◆ Salary, benefit, and departmental costs are based on FY 19 adopted budget.
- ◆ Citywide overhead was calculated through the City's current Cost Allocation Plan.

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Results Overview

Department	Revenue at Current Fee	Total Annual Cost	Annual Surplus / (Deficit)	Cost Recovery %
City Clerk	\$31,970	\$33,920	(\$1,950)	94%
Housing & Community	\$28,520	\$37,844	(\$9,324)	75%
Planning	\$1,220,544	\$3,038,661	(\$1,818,117)	40%
Electric Utility	\$349,800	\$313,752	\$36,048	111%
Finance	\$2,195,923	\$2,624,117	(\$428,194)	84%
Fire	\$4,121,202	\$7,428,027	(\$3,306,825)	55%
Library	\$112,836	\$330,892	(\$218,056)	34%
Cemetery	\$222,026	\$361,224	(\$139,198)	61%
Recreation	\$2,604,667	\$15,053,849	(\$12,449,182)	17%
Police	\$38,185	\$61,278	(\$23,093)	62%
Engineering	\$2,595,287	\$2,919,726	(\$324,439)	89%
Streets	\$301,602	\$729,461	(\$427,859)	41%
Water	\$2,353,777	\$3,490,818	(\$1,137,041)	67%
Sewer	\$58,132	\$252,773	(\$194,641)	23%
TOTAL	\$16,234,471	\$36,676,342	(\$20,441,871)	44%

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Cost Recovery Overview

- ◆ The following table shows the typical average cost recovery by major department type, and the current cost recovery level for the City of Santa Clara.

Department	Typical Cost Recovery %	City of Santa Clara Current Cost Recovery %
City Clerk	20% - 40%	94%
Planning	50% - 80%	40%
Fire	50% - 80%	55%
Finance	20% - 40%	84%
Police	20% - 40%	62%
Public Works	80% - 100%	89%
Parks and Recreation	20% - 40%	17%

- ◆ Typical cost recovery is based on local government operations across the U.S.

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Phase I

- ◆ Citywide fees (copy fees, technology fee, media fees)
- ◆ City Clerk
- ◆ Housing and Community Services Division
- ◆ Electric
- ◆ Finance
- ◆ Library
- ◆ Cemetery
- ◆ Recreation
- ◆ Police

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Results Highlights – Citywide Fees

- ◆ This section of the fee schedule includes fees which are applicable to all City departments, including copy fees, media fees, and technology fees.
- ◆ Copy fees are set by the state (\$0.10 - \$0.25), and media fees must be set at cost of the device (average \$3).
- ◆ The Citywide Technology Fee is currently set at 2.0% and is meant to account for acquisition, licensing, and implementation of permit technology systems.
 - ➔ The study calculated the fee to be 3.37%
 - ➔ This fee is applicable only to services provided by Building, Planning, Fire, Public Works.

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Results Highlights – City Clerk

- ◆ **Cost Recovery:** The City is currently recovering 94% of it's fee-related costs.
 - Annual subsidy is projected at \$1,950
 - Typical cost recovery is between 20% - 40%.
 - This accounts for various services, including candidate registration forms, initiative filings, document certification, etc.
- ◆ **Modifications:** No major modifications were made to the fee structure.

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Results Highlights – Housing & Community Services

- ◆ **Cost Recovery:** The City is currently recovering 75% of it's fee-related costs.
 - Annual subsidy is projected at \$9,324
 - Typical cost recovery is between 50% - 80%.
- ◆ **Modifications:** Staff have proposed converting the Multi-Family Loan Subordination Request Review from a flat fee to actual cost, as well as adding four fees and two fines:
 - Affordable Housing Agreement – Multi-Family For Rental
 - Affordable Housing Agreement Amendments
 - Loan Demand Payoff Fee Recalculation
 - Reconveyance
 - NCIP (Fine)
 - BMP / FTHB (Fine)

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Results Highlights – Electric

- ◆ **Cost Recovery:** The City is currently recovering 111% of its fee-related costs.
 - Typical cost recovery is 100%.
- ◆ **Annual Results:** The projected annual surplus is \$35,972.
 - The majority of this surplus relates to Engineering Plan Check (\$25,974)
 - The per unit surplus is \$44, with an annual volume of 594.
 - The current fee of \$318 will need to be reduced to the full cost of \$274 in order to comply with state laws.
- ◆ **Modifications:** Field marking fees were eliminated, as the state has recently determined that there should be no charge for these services.

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Results Highlights – Finance (Muni-Services)

- ◆ **Cost Recovery:** The City is currently recovering 84% of its fee-related costs.
 - Typical cost recovery is between 20% - 40%.
 - This accounts for services such as business license applications and film permits.
- ◆ **Annual Results:** The projected annual subsidy is \$428,194.
 - The majority of this subsidy relates to fines for: Billing service charge for late payment (\$190,986) and Delinquent Service Letter (\$169,775).
 - Billing service charge for late payment has a per unit subsidy of \$4, but an annual volume of 54,337.
 - Delinquent service letter has a per unit subsidy of \$11, but an annual volume of 14,769.
- ◆ **Modifications:** No major modifications were made to the fee structure.

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Results Highlights – Library

- ◆ **Cost Recovery:** The City is currently recovering 34% of it's fee-related costs.
 - Typical cost recovery is between 20% - 40%.
- ◆ **Annual Results:** The projected annual subsidy is \$218,056.
 - The majority of this subsidy relates to Processing replacement of non-paperback items.
 - The per unit subsidy is \$31, and the City processed approximately 5,739 replacements last year.
- ◆ **Modifications:** The only modifications made to the fee schedule were minor adjustments to fee titles to better reflect the services provided.

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Results Highlights – Cemetery

- ◆ **Cost Recovery:** The City is currently recovering 61% of it's fee-related costs.
 - Typical cost recovery for municipal cemeteries is between 20% - 40%.
- ◆ **Annual Results:** The projected annual subsidy is \$139,198.
 - Nearly all of this subsidy relates to Casket Burial, Install Single Burial Vault, Single Depth Grave Site Preparation.
 - The per unit subsidy is \$1,596, and the City provided these services approximately 86 times last year.
- ◆ **Perpetual Care:** Accounts for costs associated with the City's responsibility to maintain the cemetery in perpetuity.
 - The per unit subsidy was calculated at approximately \$3,400.
- ◆ **Modifications:** The Cemetery's current schedule is quite detailed, and no modifications were proposed.

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Results Highlights – Recreation

- ◆ **Cost Recovery:** The City is currently recovering 17% of it's fee-related costs, with typical cost recovery between 20% - 40%.

Department	Total Cost	FY17/18 Revenue	Surplus / (Deficit)	Cost Recovery
Youth Activity Center & Programs	\$1,936,040	\$461,286	\$1,474,754)	24%
Senior Center & Therapeutic Recreation Programs	\$2,267,926	\$133,972	(\$2,133,954)	6%
Community Rec Center and Programs	\$3,499,231	\$1,477,710	(\$2,021,521)	42%
Recreation Facilities	\$2,625,852	\$6,657	(\$2,619,195)	0%
Aquatics	\$1,866,724	\$282,656	(\$1,584,068)	15%
Sports and Athletics	\$855,294	\$50,524	(\$804,770)	6%
Teen Center Activities and Programs	\$835,817	\$62,328	(\$773,489)	7%
CW Special Events	\$1,166,966	\$129,534	(\$1,037,432)	11%
TOTAL	\$15,053,849	\$2,604,667	(\$12,449,182)	17%

- ◆ **Modifications:** Program and class fees were not assessed, as these are developed seasonally.

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Results Highlights – Police

- ◆ **Cost Recovery:** The City is currently recovering 62% of it's fee-related costs.
 - Typical cost recovery is between 20% - 40%.
- ◆ **Annual Results:** The projected annual subsidy is \$23,093.
 - Subsidies range from a low of \$9 to a high of \$2,254 on a per unit basis.
 - No permit category has an annual subsidy above \$4,000.
- ◆ **Modifications:** Fees were both added and removed from the current schedule:
 - Tow Drive Renewals and VIN verification were removed, as these services are no longer provided.
 - Solicitor / Peddler Employee Only permits, USB Drive for Reports, and Electric Scooter / eBike Removal and Storage were added.

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Cost Recovery Policies and Annual Updates

- ◆ The City should develop cost recovery goals for each City Department.
 - Goals should represent the baseline target for each Department.
 - Documented exceptions should be noted on a fee-by-fee basis, for example if fees are already at a higher cost recovery level than the target those should remain unchanged; while other fees should be reviewed to determine the impact of their increase upon the community.
- ◆ An annual fee increase mechanism should be adopted.
 - The mechanism should be directly relatable to the City such as annual cost of living adjustments (COLA) or other labor factor increases.