

## REPORT TO THE CITY COUNCIL

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**DATE:** June 16, 2020

**TITLE:** Resolution Adopting User Fee Study

**Prepared by:** Geoffrey Buchheim, Finance Director

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### RECOMMENDATION

- 1) Staff Report;
- 2) Entertain questions of Staff by the City Council;
- 3) Open the Public Hearing;
- 4) Take public testimony;
- 5) Close the Public Hearing;
- 6) City Council discussion and questions to Staff; and
- 7) Adopt a Resolution of the City Council adopting the User Fee Study prepared by Revenue & Cost Specialists, LLC, dated April 2020.

### BACKGROUND

In March 2019, the City went out to bid with a formal Request for Proposals (“RFP”) process to hire a consulting firm to prepare a Comprehensive User Fee Update Study. The California Constitution allows municipalities to recover reasonable costs borne from providing certain services to certain individuals. In that regard, the consultant was hired to work with City staff to determine the full cost of providing City services. The firm that was selected out of the RFP process was the consulting firm of Revenue & Cost Specialists, LLC. Prior to this current study that was completed in April, the City last updated its user fees in March 2015 and prior to that, in October 2007.

### DISCUSSION

In May 2019, shortly after the contract was awarded, staff began their work with Eric Johnson of Revenue & Cost Specialists, LLC, to review the existing City fees as well as potential new fees for all services and make recommendations to establish the full cost of providing such services by the City. Since the previous fee study was completed in 2014, the City has added new services, such as Animal Control and Cannabis Compliance, that has increased the City’s costs which could be offset by user fees. Without corresponding user fees, these new services would be funded by tax revenues. The primary objective of the study was to establish a consistent and objectively-based fee and rate structure that meets the needs of the City and its citizenry.

The consultant worked with Staff during several scheduled meetings to obtain information to calculate the direct costs and indirect overhead expenses for each fee service, based on the City’s 2019-2020 budget and salary schedules. Staff and the consultant established a detailed work plan to review each fee service, added any additional fees, and reviewed staff time for each fee service type. Staff was able to determine the number of fee services provided annually for each fee service type. The final result is the attached User Fee Study dated April 2020 (“Fee Study”).

The City is permitted to charge fees based on “costs reasonably borne” by the City, however, the fees may not exceed those costs in providing the service. “Costs reasonably borne” is intended to include all appropriations by an entity for the appropriate costs for the continuation of the service over time. This includes the ongoing expenses such as operating costs and an allocation for overhead and administration. The types of costs include: salaries and wages; employee fringe benefits; maintenance and operations costs; overhead costs; general City and department and/or divisional overhead costs. The consultant did calculate general overhead

costs through the Cost Allocation Plan and identified departments receiving each type of overhead service. Costs associated with each department were included as well as a uniquely determined department overhead rate.

The User Fee Study was provided to the Desert Valley Builders Association (“DVBA”) for their review. After several meetings, the DVBA provided a letter approving of the updated User Fee Study with the exception of including “unfunded liability costs” in the overhead allocation rate. The “unfunded liability costs” that are included are not the general unfunded liability that most agencies with CalPERS are experiencing. It is the annual payment the City is required to make to the Side Fund in addition to the regular PERS contributions. The Side Fund was created when the City’s Miscellaneous and Safety Plans converted to cost sharing pooled plans with PERS. The payments to the Side Fund were created to account for the difference between the funded status of the pool and the funded status of the City’s plans. This is a debt specific to the City and not shared by the other members of the pool. This debt is disclosed in the City’s audited annual financial statements and is scheduled to end in 2023 for the Miscellaneous Plan and 2026 for the Safety Plan. The inclusion of these costs into the overhead allocation is a general practice for other cities with the same situation, and Article XIII B allows for a reasonable allocation of related debt. The consultant and City staff feel that this is a reasonable cost to include in the overhead allocation.

After the study was completed, the changes in fees varied based on using the updated costs associated with each fee and the number of fees to be collected by each service type. Some fees were increased while other fees were decreased, and some new fees were added. These changes were made based on recovery of the full costs associated with each fee. If the City Council desires, they may choose to subsidize a portion of (or all of) any user fees listed in the User Fee Study.

#### **FISCAL IMPACT**

If the Fee Study were to be approved and adopted as presented, the City would recover the full costs associated with each fee. The Consultant suggested that if the new fees were adopted and approved as is, the City could have an increase in revenue of over \$641,000, however, this was not included in the FY2020-2021 budget. Since much of the increase is due to development, planning, and building fees and with the current situation due to COVID-19 and an economic downturn, it is not certain if the estimated increase in fee revenue will occur during FY 2020-2021.

#### **EXHIBIT(S)**

- 1) Resolution Approving the User Fee Study Prepared by Revenue & Cost Specialists.
- 2) Final Draft Fee Study Update for the City of Desert Hot Springs – April 2020
- 3) Letter from Desert Valley Builders Association – May 26, 2020