

City of Culver City, California  
**City Council Agenda Item Report**

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| Meeting Date: 06/23/08                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |  | Item Number: <u>PH-4</u>                                                               |  |
| <b>AGENDA ITEM: CONTINUED PUBLIC HEARING 1) Adoption of a Resolution Establishing and Amending Various Fees and Charges for Services Provided by the City and Rescinding Prior Fee Resolution Nos. 2007-R024, 2007-R037, 2007-R065 and 2007-R073 and; 2) Rescinding Portions of Resolution Nos. 96-R008, 2000-R074, and 2003-R020.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |  |                                                                                        |  |
| Contact Person/Dept.: Nick Kimball,<br>Finance Administration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |  | Phone Number: 310-253-6013                                                             |  |
| Fiscal Impact: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  | General Fund: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>      |  |
| Public Hearing: <input checked="" type="checkbox"/>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |  | Action Item: <input type="checkbox"/> Attachments: <input checked="" type="checkbox"/> |  |
| Public Notification:<br>Master E-Mail Notification List (6/18/08); Publication of Legal Notice in the Culver City News on 5/08/08; Notice placed on public counters in City Hall on 5/02/08 and 6/16/08; Ad placed in Culver City News and Culver City Observer on 6/19/08.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  |                                                                                        |  |
| Department Approval:<br>Jeff Muir (06/16/08)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |  | City Attorney Approval:<br>Carol Schwab (by H. Baker) (06/18/08)                       |  |
| Chief Financial Officer Approval:<br>Jeff Muir (06/18/08)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |  | City Manager Approval:<br>Jerry B. Fulwood (06/18/08)                                  |  |
| <p><b><u>RECOMMENDATION:</u></b></p> <p>Staff recommends the City Council adopt a resolution establishing and amending various fees and charges for services provided by the City and rescinding the prior fee resolutions.</p> <p><b><u>PROCEDURE:</u></b></p> <ol style="list-style-type: none"><li>1. Mayor seeks motion from Council to receive and file the affidavits of publication and posting of notices, and correspondence received in response to the public hearing notices;</li><li>2. Mayor calls for a staff report and/or poses questions to staff as desired;</li><li>3. Mayor seeks motion to reopen the public hearing (if desired);</li><li>4. Mayor seeks motion to close the public hearing after all audience testimony has been presented; and</li><li>5. City Council discusses the item and arrives at its decision.</li></ol> |  |                                                                                        |  |

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**BACKGROUND:**

The public hearing on this agenda item was continued from the May 19, 2008 City Council meeting. Notices of the continuation of the public hearings were published in local newspapers on June 19, 2008.

On June 26, 2006, the City Council adopted a resolution compiling all the City's fees and charges, which were previously contained in many resolutions adopted at various times, into one document. In the 2006-07 Adopted Budget, the City Council approved funds to hire a consultant to conduct a comprehensive study of the City's fees and charges. In September 2006, the City Council awarded a contract to Public Resource Management Group (PRM) to conduct this study.

The purpose of the study was to calculate the full cost of providing each fee activity, including direct and indirect costs. Direct costs are primarily staff's salary and benefit costs multiplied by the average time spent working on each fee activity. Indirect costs consist of department overhead (i.e. utility costs, related operations and maintenance costs, administrative support, management oversight, and support from other departments/divisions) and city-wide overhead from the City's Cost Allocation Plan (i.e. support from other City departments such as Accounting and Payroll, IT, Attorney's Office, and Human Resources). The full cost, or actual cost, as calculated by PRM is the maximum that the City can legally charge for each fee related activity. PRM's study from FY 2006-2007 is included as Attachment 2.

The actual cost of providing each service, as calculated by PRM, was then compared to the City's current fee for that service. PRM also provided a comparison of current and recommended cost recovery rates for a number of California cities for which PRM had conducted this same study. Based on this information, City staff reviewed each fee and made recommendations to increase/decrease a number of fees, which was adopted by City Council on May 7, 2007, by Resolution 2007-R024.

It should be noted that prior to this comprehensive fee study, each City department brought forward its own fee resolution to request an increase during the annual budget process. In most cases, these increases were based on the annual Consumer Price Index (CPI) and did not take into consideration the actual direct, indirect, and overhead costs which should be factored into the fee.

**DISCUSSION:**

City Council Policy 5002 – Financial Policies includes the following statements related to user fees and charges:

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1. All non-enterprise user fees and charges will be examined or adjusted annually to determine the direct and indirect cost of service recovery rate. Where direct services to users can be measured, the City shall consider use of appropriate fees, charges or assessments rather than general tax funds.
2. User fees and charges for specialized services shall be established at a level related to the cost of providing such service except where the City Council has determined there is a public benefit to subsidize the service with tax based revenue. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council following public review.

Additionally, as a matter of good financial management, comprehensive fee studies should be conducted every five years or so. The study conducted by PRM in 2007 was the first such study conducted by the City in more than 15 years. Consequently, the fee adjustments adopted by City Council were significant in some cases. Despite the significant increases, most fees were not increased to full cost recovery. City Council may wish to increase a number of fees further to get closer to full cost recovery.

To that end, staff met with the Budget & Finance Subcommittee (Mayor Malsin and Councilmember Armenta) on May 20<sup>th</sup>, May 27<sup>th</sup>, June 9<sup>th</sup>, and June 17<sup>th</sup> to discuss possible fee increases and an equitable cost recovery policy. As a result of those meetings and internal discussions with operating departments, staff has developed a revised cost recovery policy for FY 2008-09 and an implementation schedule for each affected division over the next four years (Attachment 1). The implementation schedule will be used by staff to increase fees incrementally over the next few years. At the end of the four year implementation (FY 2012-13), it will be time to conduct another fee study.

Since the nature of the fees in each division is inherently different, staff has made the following recommendations based upon input from the Budget & Finance Subcommittee and the operational nature of the division.

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| <b>Department/Division</b>                      | <b>Cost Recovery Recommended by staff on 5/19/08</b> | <b>FY 2008-09 Revised Proposed Cost Recovery</b> | <b>FY 2009-10 Proposed Cost Recovery</b> | <b>FY 2010-11 Recommended Cost Recovery Goal</b> |
|-------------------------------------------------|------------------------------------------------------|--------------------------------------------------|------------------------------------------|--------------------------------------------------|
| Building & Safety                               | 85%                                                  | 92%                                              | 95%                                      | 95%                                              |
| Engineering: Preferential (Residential) Parking | 32%                                                  | 32%                                              | 32%                                      | 32%                                              |
| Engineering: Minor Permits & Hrly Billing Rate  | 70%                                                  | 80%                                              | 85%                                      | 85%                                              |
| Planning                                        | 41%                                                  | 64%                                              | 75%                                      | 85%                                              |
| PR&CS: Recreation                               | 48%                                                  | 48%                                              | 49%                                      | 50%                                              |
| Fire                                            | 42%                                                  | 57%                                              | 65%                                      | 72%                                              |
| Police                                          | 84%                                                  | 87%                                              | 90%                                      | 90%                                              |

Staff is recommending a cost recovery level for land use related activities (i.e. Building and Safety, Planning, and Engineering) between 85-95%. This is consistent with surrounding cities. The resulting 5-10% subsidy level represents subsidies for activities that impact residents to a larger extent. More detail on the land use related fees is contained below:

**Land Use Fee Activities:**

**Building & Safety:** Building & Safety issues building, mechanical, plumbing, and electrical permits and inspects contractor's work to make sure that it complies with local and state building codes. In most cities, Building & Safety typically has one of the highest cost recovery rates compared to other fee related services in the City. This is also the case in Culver City where the Division is currently recovering approximately 85% of costs related to fee based services. Fee increases in Building & Safety impact developers constructing large projects as well as small business owners or residents constructing additions, remodels, and other facility repairs.

Staff is recommending an overall increase of approximately 7% in addition to the 4% cost of living adjustment (COLA). This will bring the Building and Safety cost recovery to approximately 92% with a proposed goal of 95% cost recovery within the next two years.

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Additionally, the current fee schedule for issuing electrical, mechanical, and plumbing permits is very detailed and complicated. Building staff is proposing to review their fee schedule in the upcoming fiscal year and possibly recommend a fee structure during next year's fee update that is easier to understand and implement.

*Engineering:* One of the Public Works Department/Engineering Division's responsibilities is issuing permits, reviewing plans, and maintaining the City's rights-of-way, including traffic and parking on City streets. The Engineering Division charges many of its permits and plan checks on an hourly basis, which is currently set at approximately 70% cost recovery.

The Preferential Parking Program and Neighborhood Traffic Management Program (NTMP) are both heavily subsidized programs (the City only recovers approximately 30% of the cost of the preferential parking program and there is no charge for the NTMP). Because preserving residents' access to these two programs is important, staff recommends maintaining the cost recovery for these programs at the existing level by implementing only a 4% COLA.

The large subsidy in the preferential parking program significantly decreases the Engineering Division's overall cost recovery rate. Excluding these programs, the Department's overall cost recovery is approximately 70%. Staff is recommending an increase of 10% in addition to the 4% COLA adjustment. This will bring the cost recovery to approximately 80% (excluding preferential parking) with a proposed goal of 85% within the next two years.

*Planning:* The Planning Division is responsible for ensuring that land uses in the City comply with the City's General Plan and Zoning Code. The fee activities processed by the Planning Division impact developers proposing new developments both large and small, as well as small business owners trying to expand or add services to their business, and residents remodeling and adding living space to their homes.

The Planning Division's cost recovery rate prior to the fee study was 15%. For FY 2007-08, City Council adopted fees that increased the cost recovery rate to approximately 41%. Staff is recommending another increase for FY 2008-09 to raise the cost recovery level to approximately 64%. Staff recommends another 11% and 10% increase in FY 2009-10 and FY 2010-11, respectively. This would bring planning fees in line with the proposed goal of 85% cost recovery within the next three years.

**Parks, Recreation and Community Services Fee Activities:**

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**Recreation:** Recreation is a service area in which cities typically provide a higher level of subsidy. Recreation programs include youth sports and afterschool programs, adult sports programs, teen programs, park programs, aquatic programs, etc. The Recreation Division is currently recovering approximately 48% of costs, which is a relatively average recovery rate for recreation programs. After reviewing the current cost recovery rates for each program area, staff recommends slightly increasing a number of fees. However, because many of the fees are recommended to stay the same while costs increase by 4%, the recommended increases are a wash and the cost recovery rate will remain at approximately 48%. Staff recommends that City Council adopt a proposed cost recovery rate for recreation programs of approximately 50%.

Additionally, in order to better compete in the job market, PRCS staff will be bringing a comprehensive package to the City Council in the near future that includes a proposed pay rate increase for aquatics staff along with possible new fees and charges at the Municipal Plunge.

**Veteran's Memorial Complex:** Veteran's Memorial Complex manages the facility and room rentals for the Veteran's Memorial Building and Auditorium, Senior Center, and Teen Center. Currently, the Veteran's Memorial Complex is recovering approximately 54% of its costs. The current pricing structure allows for subsidizing facility use at different levels, based on the classification of the person/organization using the facility. Rental fees at the Veteran's Memorial Complex were increased by 10% in 2006-07 and were not increased last year. An overall increase of approximately 4% is recommended for FY 2008-09. This proposed fee increase takes into consideration the facility rental market and the condition of the facilities being rented.

**Senior Center:** Currently, the Senior Center does not charge fees for service. The Culver City Senior Citizens' Association (CCSCA) collects the annual membership fee in lieu of charging user fees. The CCSCA then donates a portion of the collected membership fees to the City. PRM's analysis identified the full cost of providing senior services and may be used in the future if the City decides to negotiate a change in the current method of cost recovery.

**Public Safety Fee Activities:**

**Fire:** The Fire Department is responsible for performing safety inspections in a number of areas, including fire safety compliance in new and existing structures, hazardous material transport and handling, and fire alarm system installations. Similar to the Building and Safety Division, fee increases impact developers constructing large projects as well as small business owners and/or residents constructing additions, remodels, and other facility repairs. In fact, the Fire

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Department's primary fee based activities are related to fire inspections on businesses. The current fee structure provides a higher subsidy for smaller businesses (less than 5,000 square feet) than larger businesses (larger than 5,000 square feet).

Since fire inspections are safety related and very high fees may result in people attempting to avoid these inspections, some subsidy is recommended. Therefore, staff is recommending fee increases to bring the Fire Department's cost recovery rate from 42% to 57%, with the goal of achieving 72% cost recovery within the next three years. The most significant proposed increases are in the business fire inspection category.

*Police:* The Police Department charges fees for a number of services, including Livescan services, film permit applications, and alarm permits for alarm systems. The Police Department currently has a strong cost recovery rate of about 85%, due primarily to cost recovery for Livescan and alarm permit services. Staff recommends increasing cost recovery slightly to 88%. This is due mainly to a proposed increase in film permit application fees from \$90 to \$125. The ultimate cost recovery rate recommended by staff is 90%.

Attachment 2 to this agenda report shows each fee, the current fee amount, the recommended amount, and the cost recovery level at the proposed amount or a brief comment. With the exception of Planning, Building Safety, and Public Works fees set forth in Exhibits D and H-1, respectively, all fees in the proposed resolution will become effective on Monday, June 30, 2008. The fees in Exhibits D and H-1 are subject to provisions of California Government Code Section 66017, which regulate development processing fees, and shall become effective on Monday, August 22, 2008; sixty days from the date of Council action this evening.

Fee Comparisons with other Cities

Comparing fees to other jurisdictions is a natural question, but unfortunately may not provide a meaningful "apples to apples" comparison. California law (Proposition 218) mandates that local agency fees must be established at an amount that can not exceed what it actually costs to provide the service. Culver City cannot set its fees to be the average of other cities, or use any methodology taking into account other cities' fees. Culver City can only charge a fee which, at maximum, is no greater than our costs. During PRM's report to City Council in May 2007, they explained the inherent difficulty of providing a meaningful fee comparison with other cities using the absolute dollar cost of the fee due to the number of variables in policies and procedures from city to city. A few examples of variables include: a) differences in staff costs (i.e. the salary and benefit structure in City A may be different than City B); b) different processes (i.e. permit approval in City A may require review by a City

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Commission while approval in City B can be approved administratively by staff); c) City A has recently completed a fee study and knows the full cost of providing their service while City B has not done a fee study and doesn't have a clear idea of the cost to provide services; or d) a policy decision in City A to keep fees low (and potentially provide the difference between the fee and actual costs as a subsidy from the General Fund) versus a policy decision in City B to keep fees close to or at actual costs (thereby minimizing the subsidy required from the General Fund).

According to PRM, the only way to approach some sort of meaningful comparison is to compare cost recovery levels for each group of fees against cost recovery levels in other cities who have had a fee study completed recently. Page 139 of Attachment 3 shows a comparison prepared by PRM as part of their fee study that compares cost recovery levels in Culver City to those in other cities that PRM conducted a similar study. This was prepared in an attempt to hold some of the variables constant, such as differences in payroll, differences in process, and different fees, and focus primarily on the policy decision of cost recovery level. As the comparison shows, Culver City was on the low end of cost recovery. With the adoption of the fee increases last fiscal year, Culver City was brought more into line with the comparison cities as it relates to cost recovery, but is still on the lower end.

**FISCAL ANALYSIS:**

Most fees collected by the various departments are placed into the General Fund and are used to fund general City services such as public safety, public works projects and maintenance, parks maintenance, and recreation programs, among others.

| <b>Fiscal Year</b>  | <b>General Fund Receipts*</b> |
|---------------------|-------------------------------|
| 2006-07 (actual)    | \$7,682,000                   |
| 2007-08 (estimated) | 8,366,000                     |
| 2008-09 (proposed)  | 8,534,000                     |
| 2009-10 (proposed)  | 8,649,000                     |

\* Includes receipts for "Licenses and Permits" and "Charges for Services;" excludes "Billings to RDA."

In preparing the revenue projection in the above table, staff assumed a 4% increase in fees when projecting the 2008-09 and 2009-10 revenues for the proposed budget. If the fee resolution is adopted by City Council, as proposed, the fee projections for 2008-09 and 2009-10 may need to be increased. However, due to the current economic uncertainty, especially in the real estate and financial markets, the Chief Financial Officer recommends waiting until mid-year to make any adjustments to the budget.

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The current state of the real estate and financial markets may have a significant negative impact on all construction activities, from large developments to smaller home remodels. Developers are finding it increasingly difficult to get construction financing, causing them to delay development plans. Additionally, home values are rapidly declining, which is negatively impacting homeowner equity. As a homeowner's equity decreases, they are less likely to use their equity to remodel or make upgrades to their home. If homeowners are not remodeling and developers are not developing, then permit and inspection activities will decline, consequently decreasing the revenues generated by those activities.

The economic uncertainty is further compounded by continuing price increases for food, fuel, and other raw materials. Additionally, Federal Reserve Board Chairman Ben Bernanke has alluded to the Federal Reserve Board taking action toward the end of the summer by beginning to slowly increase interest rates. All of these factors have a negative impact on consumers' disposable income and discretionary spending habits, which will adversely affect Culver City's sales tax revenue. At this point, the extent and duration of this impact is not known.

Due to these economic factors, potential additional revenues from an increase in fees may be offset by a decrease in development and spending activity in the City. Therefore, the Chief Financial Officer recommends a conservative "wait and see" approach before making significant adjustments to revenue projections.

**ATTACHMENTS:**

1. Proposed Implementation Schedule
2. Proposed Resolution 2008-R\_\_ with Exhibits (fee schedule)
3. 2007 Fee Study Conducted by Public Resource Management

**MOTIONS:**

That the City Council:

1. Adopt a resolution establishing and amending various fees and charges for services provided by the City and rescinding prior fee Resolution Nos. 2007-R024, 2007-R037, 2007-R065 and 2007-R073 and rescinding portions of Resolution Nos. 96-R008, 2000-R074, and 2003-R020.