

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

Meeting Date: 09/09/2013		Item Number: <u>C-2</u>	
CITY COUNCIL AGENDA ITEM: Approval of a Professional Services Agreement with NBS Government Finance Group, dba NBS to Prepare a User Fee Study and Cost Allocation Plan Update in an Amount Not-to-Exceed \$53,675.00 Plus \$10,255 for Each of the Subsequent Four Years for Updates to the Plan (for an Aggregate Total Not-to-Exceed \$94,695.00).			
Contact Person/Dept.: Nick Kimball, Finance Department		Phone Number: (310) 253-6013	
Fiscal Impact: Yes ☒ No ☐		General Fund: Yes ☒ No ☐	
Public Hearing: ☐		Action Item: ☐ Attachments: ☐	
Commission Action Required: Yes ☐ No ☒ Date: _____			
Public Notification: (Email) Meetings and Agendas – City Council (09/04/2013); (Email) NBS, MGT of America Inc., and Heinfeld, Meech & Co. PC (09/04/2013)			
Department Approval: Jeff Muir (09/03/13)		City Attorney Approval: Carol Schwab (by H. Baker) (09/03/13)	
Chief Financial Officer Approval: Jeff Muir (09/03/13)		City Manager Approval: John M. Nachbar (09/04/13)	
<u>RECOMMENDATION:</u> Staff recommends the City Council approve a professional services agreement with NBS Government Finance Group, dba NBS to prepare a user fee study and cost allocation plan for an amount not-to-exceed \$53,675 and an annual update to the cost allocation plan for an amount not-to-exceed \$10,255 per year for up to four (4) additional years. <u>BACKGROUND:</u> The City assesses user fees for certain services including, but not limited to, special permits, plan check and inspection fees for new construction projects, registration fees for swim lessons and recreation classes, pet licensing fees, room rental fees, etc. In general, when an individual pays a user fee, they receive a direct service or derive some other special benefit/entitlement. In contrast, taxes are not required to offset the cost to the City of a specific service or facility that a member of the public actually uses or from which they derive a benefit; however taxes are subject to voter approval. The purpose of charging user fees is to recover part, or all, of the cost of providing the service (i.e. processing applications, implementation, enforcement). In cases where costs are not fully recovered, the activity is being ‘subsidized’ by general tax revenues. Legislative bodies have the authority to decide whether to subsidize certain fees when they decide it is in the public’s best interest.			

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In California, user fees are subject to a number of state laws, most notably Proposition 218 (November 1996), which essentially states that a “tax” cannot be imposed without voter approval, and Proposition 26 (November 2010), which clarifies that certain fees are not considered a “tax” and not subject to voter approval (i.e. user fees, licensing and permitting fees, etc.). To comply with the various regulations and provide the legislative body with sufficient information to determine an appropriate subsidy policy, a study must be conducted periodically to determine the full cost of providing each fee based service. The expertise and resources required to perform such a comprehensive, in-depth study in a reasonable time period necessitates the skills of an outside firm that specializes in this type of analysis. To that end, Culver City issued a Request for Proposal (RFP) to conduct a comprehensive user fee study in FY 2006-2007.

On June 23, 2008, the City Council approved a cost recovery policy and implementation schedule for user fees, which is provided in the table below for City Council's reference. As illustrated in the table, the current overall cost recovery for each fee area is at the cost recovery goal.

Department/Division	Current Cost Recovery	Cost Recovery Goal per Policy
Building & Safety	95%	95%
Engineering: Preferential Parking	32%	32%
Engineering: Other Fees	85%	85%
Planning	85%	85%
PR&CS: Recreation	49%	50%
Fire	75%	75%
Police	90%	90%

Since the initial study in Fiscal Year 2006/2007, staff has updated the fee schedule annually to maintain the City's cost recovery policy. However, the City has undergone significant operational changes in the past seven years, including reduced staffing levels and increased cost sharing of employee benefits. These changes impact the underlying cost of service.

In recognition of these organizational changes on user fees, the Finance Department requested, and City Council approved, one-time funds in the Fiscal Year 2013/2014 Budget to engage a firm to conduct another user fee study and update the City's cost allocation plan.

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DISCUSSION:

Staff released an RFP to prepare a user fee study and update the City's cost allocation plan on June 24, 2013. Proposals were received from three (3) qualified firms by the due date of July 18, 2013. The firms that submitted proposals were Heinfeld, Meech & Co. PC, MGT of America, Inc. (MGT), and NBS Government Finance Group (NBS).

All firms were evaluated based on the following criteria:

1. Thoroughness of response and understanding of the task to be completed;
2. Responsiveness to requirements of the project;
3. Firm's experience in financial studies, especially in California;
4. Overall experience of staff assigned to the project;
5. Time required to accomplish the requested services;
6. Client references; and
7. Cost of service.

Based on the Finance Department's evaluation of the proposals, MGT and NBS were selected as finalists. Both firms demonstrated a complete understanding of the requested service, have extensive experience preparing user fee studies and cost allocation plans in California, and proposed very experienced staff to provide the service. The lead staff member for MGT conducted the last fee study in 2006 and has been preparing the City's cost allocation plan for almost 20 years. Overall, the City has been satisfied with the service provided by MGT. However, NBS proposed a lower fee to prepare the initial user fee study/cost allocation plan and a slightly lower total five year cost:

	Heinfeld, Meech		
	& Co. PC	MGT of America	NBS
Fee Study & CAP	95,000	58,900	53,675
CAP only:			
Year 2	25,000	9,000	10,255
Year 3	25,000	9,000	10,255
Year 4	25,000	9,200	10,255
Year 5	25,000	9,200	10,255
	100,000	36,400	41,020
Total Cost	195,000	95,300	94,695

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Staff also requested a copy of a recent user fee study and cost allocation plan prepared by NBS and MGT. Staff found the NBS reports to be more readable and user friendly for the layman (i.e. the public). Additionally, staff believes working with a different consultant for these studies will result in additional perspectives and ideas for consideration.

Therefore, staff recommends that the City Council approve a professional services agreement with NBS Government Finance Group, dba NBS, to prepare a user fee study and update the City's cost allocation plan.

NBS will provide the following services as part of the user fees study:

- Identify the total cost of providing each City service/program and comparing service costs with existing recovery levels;
- Recommend appropriate fees and charges based on analysis and any appropriate subsidy level where full cost recovery may be unrealistic;
- Prepare a final report that identifies each program/service, its full cost, recommended and current cost recovery levels, revenue impact, and fee comparisons with up to 5 other LA County cities or other California cities comparable to Culver City;
- Identify additional fees that the City may explore implementing, based on practices of comparable cities providing a similar type of service;
- A detailed excel based computer model (including training for up to 4 staff) for adjusting fees, including related schedules and cost documentation in a format that can be edited and updated by City staff to accommodate changes in the organization and/or costs; and
- Attendance at community and City Council meetings.

The study will address General Fund fees only (i.e. General Government, Public Works, Community Development, Fire, Police, and PR&CS fees). Transportation, Sewer, and Refuse fees will not be part of this study. It is expected that the study will be completed by February 2014.

NBS will provide the following services to prepare the cost allocation plan:

- Develop an overhead cost allocation model in Microsoft Excel that reflects the City's organizational and financial structure;
- Generate annual allocated costs by budget unit and fund;
- Derive overhead/indirect rates by department and Citywide;
- Prepare a final report that includes:
 - o Executive summary;
 - o Citation of data sources and key analytical assumptions;

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- o Illustration of analytical methods;
- o Presentation of findings;
- o Narrative descriptions; and
- o Technical appendix showing the analysis and any relevant data sources.

NBS will update the cost allocation plan with current data each year through Fiscal Year 2018/2019.

FISCAL ANALYSIS:

The cost of the user fees study and cost plan update is \$53,675. Sufficient funds have been included in the City Council Adopted Budget for Fiscal Year 2013/2014. The cost to update the cost plan in years 2 – 5 is \$10,255 per year. That cost will be included in future budget requests.

ATTACHMENT(S):

None

MOTION:

That the City Council:

1. Approve a professional services agreement with NBS Government Finance Group, dba NBS to conduct a Comprehensive User Fee study and prepare a cost allocation plan for an amount not-to-exceed \$53,675.00 plus \$10,255 for each of the subsequent four years for updates to the Plan (for an aggregate total not-to-exceed \$94,695.00); and,
2. Authorize the City Attorney to review/prepare the necessary documents; and,
3. Authorize the City Manager to execute such documents on behalf of the City.