



## Agenda Item Staff Report

**To:** Honorable Mayor and Members of City Council  
*For the Meeting of August 22, 2023*

**From:** Chris Constantin, City Manager

**Prepared by:** Michael O'Brien, Director of Administrative Services

**Subject:** Review and Consideration of the User Fee Study Prepared by Willdan Financial and Setting a Date for a Public Hearing to Solicit Public Input and Approve A Fee Resolution Based on the User Fee Study

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### **SUMMARY**

This is an overview and discussion of the User Fee Study and Cost Allocation Plan developed by Willdan Financial Services and to schedule a Public Hearing for September 26, 2023 where the City Council will receive public input and then consider approving a resolution implementing fees based on the User Fee Study.

### **RECOMMENDATION**

City staff recommends the City Council:

- Review and discuss results of the User Fee Study performed by Willdan Financial and provide feedback to staff.
- Approve the User Fee Study as final to establish a legal document for justification of City Fees and to utilize in establishing an updated Resolution establishing City Fees.
- Recommend conducting a public hearing at the September 26, 2023 City Council Meeting in order to elicit public comment and to consider adopting a Resolution amending the City fee schedule for services based on the suggestions in the User Fee Study and any changes to business license and permits fees that have already been incorporated while the User Fee Study was being finalized.

### **FISCAL IMPACT**

The City completed a User Fee Study and Cost Allocation Plan for a total cost of \$37,000 on July 28, 2021 through use of a consultant specializing in such studies. Approving the requested action adds limited costs to plan and hold a public hearing but does not raise fees.

## **BACKGROUND**

The City contracted with Willdan Financial Services to perform a comprehensive fee and cost allocation study. Such a study is normal and customary to ensure the City is

- 1) not overcharging fee payers,
- 2) establishes the true costs of programs and services, and
- 3) provides legal support for any fee set by the City to ensure compliance with state law which prohibits overcharging fee payers.

In order to complete the User Fee Study, Willdan Financial Services required input from virtually every City Department to determine the direct, indirect and overhead costs of each service. As part of the process to determine the actual costs of providing services, Willdan Financial Services prepared a Cost Allocation Plan (CAP) to determine the costs of indirect and overhead activities to be included in providing services and activity.

Examples of indirect and overhead costs that would be computed include portions of the salary and benefits costs of staff that provide administrative support that are essential to the operations of Development Services, Public Works, Building, Parks and Recreation Services. Those support positions include City Management, City Clerk, Human Resources, City Attorney, Information Systems and Financial Services. Additionally, there are overhead costs that are attributed to providing the services such as software systems, utilities, equipment, and maintenance services.

Willdan Financial Services collected and utilized the budgetary data from the 2021-22 adopted budget in order to prepare the CAP that ultimately resulted in the true cost of providing services that are displayed in the User Fee Study (Attachment 1).

The collection of fees is based on the needs of individuals or businesses that require services provided by the City. The User Fee Study determined that City fees were at or below cost to deliver the service. When the fee assessed does not cover the cost to provide the service, the difference is covered from general taxpayer dollars received by the City in the form of a subsidy to the person who is paying the fee.

As the City is forecasting future deficits starting in 2024-25, the City can no longer afford to continue subsidizing activities where individuals derive benefits, and the general taxpayer is paying portions of the bill. The result would require significant reduction in current programs and services. Further, ensuring limited subsidies allows the City to focus its general tax revenue on broader programs such as street infrastructure, sidewalks, public safety, parks, and other programs, events, and services that are a benefit to the entire community.

Utilizing the suggested fees from the User Fee Study, we can estimate the cost that was subsidized by the general taxpayer in the 2022-23 fiscal year for specific programs, licenses, permits, and services. Some of the specific licenses, permits, fees, and program costs are highlighted below to provide information on the subsidies the general taxpayer is currently providing.

**Licenses and Permits** collections totaled \$1,085,949 in fiscal year 2022-23. The User Fee Study suggests a 20% increase in fees. If this increase had been in place the general taxpayer would have reduced their subsidy by \$217,190.

**Street Permit Fee** collections totaled \$241,144 in fiscal year 2022-23. The User Fee Study suggested a fee increase of 10% which could have reduced the general taxpayer subsidy by \$24,114.

**Planning Fees** generated \$58,761 in fiscal year 2022-23. These fees were determined to be significantly below the cost to provide services and well below comparable cities. The User Fee Study suggests a 100% increase in the fee. The change could have resulted in recouping an additional \$58,761.

**Park and Recreations** suggested fees are also well below costs and while the overall increase equates to a 37% increase, the fees were so low to begin with that the % increases had little to no effect on the overall subsidy rate provided by the general taxpayer. In total Park and Recreation and Recreation Center fees collected were \$914,327.68. If we applied an additional 37% to those fees the city could have recouped an additional \$338,301 of costs.

Below is a synopsis of the subsidized costs discussed above.

Licenses and Permits	\$217,190.00
Street Permits	\$24,114.00
Planning Fees	\$58,761.00
Parks and Recreation Fees	\$338,301.00
<b>Total</b>	<b>\$638,366.00</b>

Had the suggested fees been in place for the previous fiscal year, the additional funds could have been utilized for programs and services which have broad benefit such as streets and sidewalk construction and rehabilitation, added public safety service, or updates to aging park amenities such as playgrounds.

### **DISCUSSION/ANALYSIS**

Many of the fees, both in number and in dollar impact, are in Planning, Building, Code Enforcement, Public Works, and Parks and Recreation. The User Fee Study prepared by Willdan Financial Services, analyzed the cost of providing those services. These services include fees such as a fee for a dance class or to rezone a property to increase its value and use, but other fees implement state and code mandates such as ensuring inspections of water heaters or building construction. In all, the fees paid are for activity that benefits an individual or a very limited number of individuals, and any subsidy adds burden to the general taxpayers to provide more benefit to these limited individuals.

### **Consideration for Subsidizing Fees**

The report also provides the data necessary to determine how much of general taxpayer dollars are being used to subsidize activities of which the benefits are generally only realized by those receiving the service. Based on State law the City could charge up to 100% of the costs

associated with a given fee. However, staff took into consideration how those costs compared with those of comparable cities to determine a reasonable fee to suggest. Staff utilized the fee structures from cities that were included in the City's compensation study to help determine if the suggested fees were reasonable in order to ensure that they would be competitive with the other cities fee schedules.

Because many of our fees have remained at the same level for multiple years, in some cases going as far back as the early 1980's, the percentage increases appear large, but the actual fee being suggested is still very competitive.

Permit fees were approved by Council Resolution to match the County and have increased over the years as the County fees have increased. However, after conducting our comparisons it was suggested that the City should increase permit fees by 20% above the County fees which would be within the scope of the cost of providing the services as well as being competitive when compared to the other cities surveyed.

Overall, the City of San Dimas current fee schedule provides large subsidies by general taxpayers for services and activities which only benefit those receiving those specific services and not the entire community. There could be many reasons that resulted in the large general fund subsidies, and one significant factor is that the City has not conducted a comprehensive fee and cost allocation study to ensure fees are set correctly and legally. It is imperative for the City to address and update the fee schedule on a regular basis to ensure competitiveness with surrounding cities, and more importantly, to make better informed decisions on the extent of subsidy the City will allow in its programs and services.

### **ALTERNATIVES**

The City Council could elect not to pursue a public hearing and leave the current fees as currently approved. This would support the continuance of subsidized fees using general taxpayer dollars and increase the challenges faced when deficit spending commences. Longer term, the deficits will have substantial impact on the City to maintain its current level of effort and programming.

### **ENVIRONMENTAL REVIEW**

Pursuant to CEQA guidelines Section 15061 (b)(3), CEQA does not apply to this item because there is no potential for causing a significant effect on the environment. Therefore, no additional environmental review is needed at this time.

Respectfully submitted,

Michael O'Brien  
Director of Administrative Services

Attachments:

1. User Fee Study
2. User Fee Study Presentation