



City Council Agenda Item

City Council Meeting Date: December 5, 2023

TO: Dean Albro, City Manager

FROM: Christie Donnelly, Management Services Director
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SUBJECT: Public Hearing to Review the Master Fee Study Update Report; Adoption of Resolution No. 6620(23) Updating the Schedule of Fees and Charges for City Services

Recommendation:

Staff recommends the City Council:

- 1) Hold the public hearing; and
- 2) Review and consider the "Fee Study Update for the City of Lompoc" conducted by Revenue & Cost Specialists (RCS) dated March 2023 (Attachment 1); and
- 3) Adopt Resolution No. 6620(23), Updating the Schedule of Fees and Charges for City Services (Attachment 2); or
- 4) Provide alternate direction.

Background:

Service or User fees include those fees in which there is a charge for the use of a facility or City service. Those fees do not include development impact fees. Following voter passage of Proposition 13 in 1978 limiting property taxes to 1% of assessed values, voters passed Proposition 4 in 1979 creating Article XIII B of the California Constitution. Proposition 4 established limits on what a city can spend, without voter approval, and specifies service fees that exceed the costs reasonably borne by the city in providing the service must be included in that appropriation limit.

In addition, Proposition 26, adopted by the voters in November 2010, includes a list of charges a city may impose that are not considered a tax and therefore do not require voter approval. Those charges are:

- 1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not

exceed the reasonable costs to the local government of conferring the benefit or granting the privilege;

- 2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product;
- 3) A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof;
- 4) A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property;
- 5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law;
- 6) A charge imposed as a condition of property development; and
- 7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

The reasonable costs discussed in Propositions 4 and 26 include staff salary and wages, employee benefits, maintenance and operation costs, and overhead costs, including both general overhead and departmental/divisional overhead.

The last user fee analysis approved by the City Council was adopted by Resolution No. 6009(16) on January 5, 2016, after a complete and comprehensive review was conducted. Before any adjustments were made to the Master Fee Schedule, each Department had the responsibility of demonstrating that their services were being provided as efficiently and effectively as possible. The City Council also adopted a policy that the User Fees are to be reviewed and updated at least every five years to ensure that the rates keep pace with the City's costs to provide those services. On September 1, 2018, a revised Master Fee Schedule was implemented that fulfilled the policy to update the User Fee Schedule to keep pace with the City's costs to provide services.

In order for both the City Council and staff to be able to maintain the City's services at a level commensurate with the standards previously set by the City Council, and to maintain effective policy and management control of City services, in early 2020, the City again engaged RCS to perform a revenue and cost analysis and to develop a cost distribution and cost control system for the City of its services. The Fee Study Update report (Attachment 1), dated March 2023, provides the results of their analysis. It should be noted that the study took longer than originally anticipated due to the impact of the COVID-19 pandemic on the ability to conduct regular meetings and coordinate staff and

consultant exchanges of data. Ultimately, the City’s costs used in the analysis were derived from the Biennial Budget Fiscal Years (FY) 2021-23 and actual expenses, and as such this report provides currently useful information about the City’s status on recovery of costs for all City services.

Discussion:

Notice of this hearing was publicly reported in the Lompoc Record on November 15, 2023, and again on November 22, 2023. The Master Fee Study Update for the City of Lompoc, dated March 2023 referenced herein as Attachment 1, is posted on the City website¹ and physical copies of the report are available for reference at Lompoc City Hall and the Lompoc Public Library.

There are a total of 195 different fee services that were reviewed by RCS, including 28 that had not previously existed in the current Master Fee Schedule. Based on updated information of the cost of the service compared to the current fees that are collected, the City could realize approximately \$1,375,840 in additional new revenue annually if the recommendations are adopted and implemented, and the estimated number of units are achieved. Of the potential \$1,375,840, approximately \$700,440 would reduce annual tax subsidies from the General Fund. Set forth below is a summary of the types of changes recommended:

<u>Fee Changes</u>	<u>Number</u>	<u>% of Total</u>
Increase Fee	105	54%
Decrease Fee	12	6%
Eliminate Fee	3	2%
No change to Fee	42	22%
Restructured Fee	5	3%
New Fee	28	13%
TOTAL	195	100%

A new Master Fee Schedule will be created within 60 days following the adoption of the resolution, or by February 2, 2024. The next scheduled adjustment to the Master Fee Schedule would be presented to the City Council for review and adoption so it could be effective on July 1, 2025. Annual adjustments would occur in the same way each July, and it is recommended that a new full and complete Cost of Service study be conducted and implemented by July 1, 2028.

Fiscal Impact:

Based on estimated “units of activity” for each of about 195 User Fees in FY 2022-23, as provided to RCS during meetings with staff, RCS estimated the City’s total annual cost of

¹ <https://www.cityoflompoc.com/government/departments/management-services/city-fees>

providing those services would be \$7.7 Million. Under the existing User Fee Schedules, the City is estimated to receive approximately \$3.38 Million, for a Cost Recovery Rate of about 43.9%. That leaves \$4.32 Million in unrecovered costs that are subsidized by the City through taxes from the General Fund and other revenue sources, as illustrated below:

SERVICE	TOTAL FEE REVENUE	TOTAL SERVICE COST	TOTAL PROFIT/ (SUBSIDY)	PCT. RECOVERY FROM FEES		POSSIBLE NEW REVENUE
				ACTUAL	SUGGEST	
COMMUNITY DEVELOPMENT	\$238,041	\$1,216,962	(\$978,921)	19.6%	VAR.	\$223,600
PUBLIC WORKS	\$577,724	\$995,970	(\$418,246)	58.0%	VAR.	\$415,800
HOUSING	\$27,830	\$39,931	(\$12,101)	69.7%	VAR.	\$6,400
PUBLIC SAFETY	\$442,416	\$1,090,392	(\$647,976)	40.6%	VAR.	\$91,400
LEISURE & CULTURAL	\$1,245,197	\$2,823,472	(\$1,578,275)	44.1%	VAR.	\$0
UTILITIES	\$799,980	\$1,111,803	(\$311,823)	72.0%	VAR.	\$253,200
ADMINISTRATION	\$46,278	\$418,342	(\$372,064)	11.1%	VAR.	\$385,440
ALL FEE SERVICES	\$3,377,466	\$7,696,872	(\$4,319,406)	43.9%		\$1,375,840

Assuming the same units of activity estimated above for the 195 User Fees, the new Master Fee Schedule supported and recommended by staff would generate approximately \$1,375,840 in additional fee revenues per fiscal year, for a cost recovery rate of 61.8%. This is lower than a full recovery cost of 100% due to areas that are subject to being subsidized based on social, safety or general community welfare, such as recreational activities and programs, public transit services and specific police service fees. Those services are subject to market and economic conditions which play a role in fee levels being best set according to the delivery point that is optimal to encourage high-level participation and overall community-wide benefit. Examples of those types of services include senior programs, and youth and teen programs, and are notated on the attached report with a “(d).”

Conclusion:

The Master Fee Study Update report prepared by RCS and presented to the City Council in this public hearing is an update to the comprehensive fee and charges report that was performed in 2015 and adopted by the City Council in January 2016, and then subsequently reviewed and updated in September 2018. The City decided to subject its fee-based services to detailed analysis dedicated toward seeking alternate, and more equitable, ways to finance City services provided to the community. If adopted and implemented as presented, the City could realize approximately \$1,375,840 in additional new fee-based revenues per fiscal year, reducing the current subsidy provided by tax related revenues by that same amount.

Respectfully submitted,

Christie Donnelly, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Dean Albro, City Manager

Attachments: 1) Fee Study Update for the City of Lompoc, dated March 2023,
Prepared by Revenue & Costs Specialists (available on the City
website at:

<https://www.cityoflompoc.com/government/departments/management-services/city-fees>)

2) Resolution No. 6620(23)