

Attachment 2

USER FEE STUDY
DRAFT REPORT
CITY OF BEVERLY HILLS
2012

July 2012

Capital Accounting
Partners

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INTRODUCTION AND SCOPE

As part of its effort to manage its financial resources wisely, the City of Beverly Hills engaged Capital Accounting Partners to prepare an indirect cost allocation plan and conduct a detailed cost analysis of its user fees. The City's objectives for the study were to ensure that the City is using comprehensive overhead rates and to accurately account for the true cost of providing the City's various services.

The cost of service and cost recovery analysis establishes the full cost of such fee services, including Engineering services, as well as Police, Fire Prevention, Ambulance, business license permits, utility connection services, code enforcement, parking, recreation, and special events. The cost recovery analysis provides the City with information regarding the current level of cost recovery and will assist City management and the City Council in determining the appropriate cost recovery policies for the various fees it charges.

The scope of this study included the following:

- ◆ Reviewing the City's current fee schedules;
- ◆ Interviewing key City staff from indirect and direct service departments;
- ◆ Calculating the total cost of fee generating services;
- ◆ Analyzing cost recovery levels for fee generating services;
- ◆ Surveying other cities;
- ◆ Developing a fee schedule that fully accounted for the range of services that the City provides; and
- ◆ Providing recommendations or methodologies on how to adjust fees annually.

The process used for collecting and analyzing the data required active participation by the City's management and staff. We want to take this opportunity to recognize their participation, time, and effort to collect the data and discuss the analysis, results, and recommendations.

Modification of Scope

The project originally included Community Development Department divisions of Building and Planning. However, these organizations are currently undergoing significant restructuring. Because of this, the analysis of these divisions has been temporarily put on hold. Once the restructuring has been fully implemented the analysis will continue.

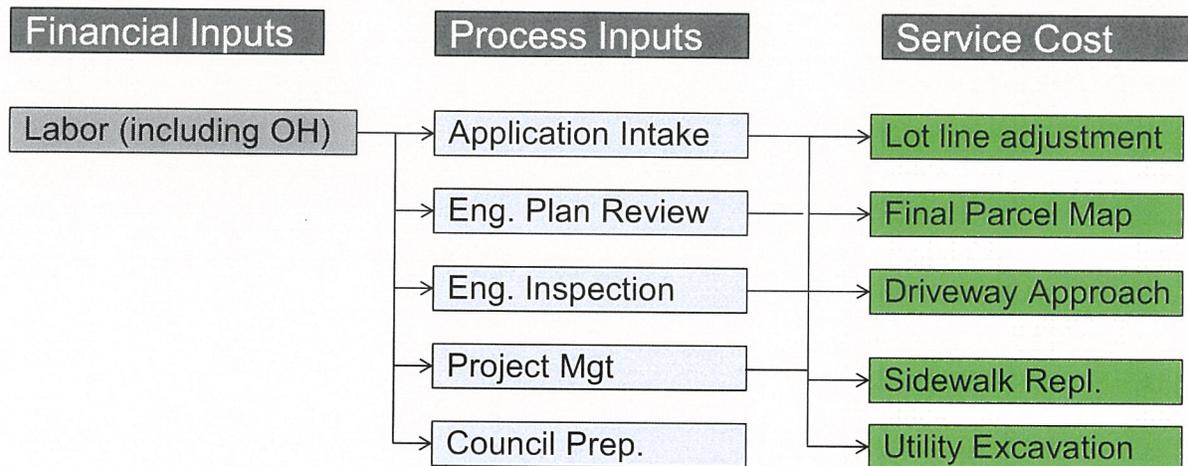
SUMMARY OF COSTING METHODOLOGIES

For this project two costing models were used. One is a driver based costing model. The other is a program based model. A driver based model calculates cost based on the underlying processes and activities that are required to deliver a fee specific service. A program based model focuses on the allocation of cost to programs rather than individual fee or service items.

Driver Based Costing Models

The detailed costing methodology is based on the principles of activity based costing. This approach seeks to calculate costs at an operational level by considering the time staff invests in core business processes to provide fee and non-fee services. This provides the ability to understand staff time and cost as each staff position participates in providing fee services. Graphically, Figure 1 illustrates this methodology in the following manner.

Figure 1. Cost of Service and Fee Setting Methodology



Step 1: Collect Data – This first step involves discussions with staff to identify those positions within each department that provide and support direct services. It also involves collecting departmental budget and expenditure data, identifying the salary and benefits for each position, and identifying non-personnel expenditures, as well as any departmental and Citywide overhead. Specifically, the steps involve the following:

- ◆ **Identifying staff positions** – This includes identifying both position titles and names.
- ◆ **Calculating the number of productive hours** – For each position, vacation time, sick leave, paid holidays, professional development (training), routine staff meetings, and daily work breaks are deducted from the standard 2,080 annual hours. The result is a range of hours available for each position on an annual basis. For many organizations, this range is typically 1,250 to 1,700 hours. Factors that influence this range are length of service with the jurisdiction and local policies for holiday and personal leave time. This, of course, does not include any overtime.
- ◆ **Identifying and allocating non-personnel costs** – Costs for materials and supplies are allocated to the salary and benefits for each position.
- ◆ **Assigning any other expenses that are budgeted in other areas** – There are often expenses that should be included with the total cost of services. Examples of such costs might include amortized capital expenses for vehicles and technology.
- ◆ **Identifying core business processes or activities** – This step also involves discussions with staff to understand, at an operational level, the work of the operating unit. Core business processes used to provide services are identified and then defined by the tasks that are involved. Processes are also organized by direct and indirect categories:
 - **Direct processes and activities** – Those processes that directly contribute to the processing of an application or permit are first identified. Examples of a direct activity are electrical building inspection, application intake, and pre-application review.
 - **Indirect processes and activities** – Those processes that support, but do not directly apply to the processing of a specific application or permit. An example of an indirect activity is customer service or staff training to maintain certifications. Most jurisdictions highly value customer service, but it is difficult to assign a specific cost or unit of time to an individual service.

Step 2: Building cost structures – This second step involves significant interaction with staff and the development of time estimates for both direct and indirect processes in each department. Specifically, this step is at the core of the analysis. There are three processes that comprise this step:

- ◆ **Gathering time estimates for direct processes** – By interviewing staff in individual and group meetings, an estimate of time was assigned to each service by the process that is indicated. For example, in processing planning fees the following specific steps are involved in the processing of these fees:
 - ◆ Application intake;
 - ◆ Application completion review; and
 - ◆ Engineering inspection.
- ◆ In this analysis, staff time is estimated and assigned to each step. The sum of all the process steps is the total time that is required to provide that specific service.
- ◆ **Assigning indirect and annual process time** – An annual time estimate is gathered from staff for those indirect or support processes in which they are involved. Some of these costs are assigned to the direct cost of a service on an allocated basis. Some might not be assigned at all. For example, in the case of engineering fees, the costs associated with internal management and administration has been included within the fee structure but costs associated with support to Building & Safety has not (it will be included in these costs).

- ◆ **Calculating fully loaded hourly rates and the cost of service** – Once the total time for each direct and indirect service is estimated, the cost of service is calculated by using the fully loaded hourly rates for each staff member or position that is involved with the service. The fully loaded hourly rate for each employee is based on the employee's salary and benefit costs plus a share of non-personnel and city overhead costs divided by the employee's available work hours (i.e. 2,080 hours minus all leave hours). Thus, the direct and indirect cost by activity also includes departmental and citywide overhead as well as non-labor costs. For this study, fiscal 2011-2012 budget expenses were used in all of the calculations.
- ◆ **Gathering activity or volume data** – A critical element in the analysis is the number of times a given service is provided on an annual basis. This is critical data for three reasons:
 - It allows a calculated projection of current revenue based on current prices. This is compared with actual revenue to see if there is a close match, as the data should match.
 - It allows for a calculated projection of revenue at full cost. This is compared to actual expenditures to see if there is a close match, as the data should match.
 - It allows for a calculation of total hours consumed. Hours consumed must closely match actual hours available.

If any of the three calculations do not approximate actual numbers, then time estimates and/or volume data need to be re-evaluated. These are critical quality checks for costing accuracy.

Step 3: Calculating the full cost of services – This third step calculates the full cost of service for each direct service in a department. In the previous step, the cost of service was calculated for each direct and indirect service. In this step the cost layers are brought together to establish the full cost of service for a specific direct service, program, or activity. As previously mentioned the cost of each direct service is calculated. To determine the full cost of service, the cost of indirect services is allocated to each direct service. The indirect service costs are allocated to each service based on labor hours spent processing each permit and application. By summing the direct and allocated indirect costs and multiplying that by the activity data, a total cost of service is calculated for both an individual service and the operating unit as a whole.

Figure 2. demonstrates an example of these calculations. This is strictly a hypothetical illustrational.

Figure 2. Example of a Fee Calculation

Application or Fee Title	Assigning Staff Cost and Time				
	City Engineer	Principal Engineer	Civil Engineer	Inspector	Totals
Application intake		0.25	0.5		0.75
Engineering plan review		2.5	0.75		3.25
Engineering inspection		1		1.5	2.5
Project management	0.5	1.5			2
Council preparation	0.75				0.75
Transportation & traffic review			1.5		1.5
Total Time by Position	1.25	5.25	2.75	1.5	10.75
Calculated fully Loaded Hourly Rate	\$ 204	\$ 185	\$ 156	\$ 125	
Total Direct Cost by Position	\$ 509.18	\$ 1,942.50	\$ 858.00	\$ 375.00	\$ 3,684.68
Total Support or Indirect Costs Assigned					\$ 985.00
Total Cost Assigned					\$ 4,669.68

Step 4: Set cost recovery policy – Once the full cost of service is calculated for each direct service in a department, the cost of service for that direct service is then compared to the revenue generated by the fee charged for the service. This cost recovery analysis identifies the cost recovery level for that direct service. Depending on City policies and other considerations, the level of cost recovery is a decision that should be made for each type or group of direct services. For example, the City might want to recover the full cost for engineering related permits, but might only want to recover 80% for fire prevention permits.

Step 5: Set fees

Based on any new, existing, or revised cost recovery policies, the recommended fees can be established. The recommended fees will be established based on City staff recommendations and Council discussion in the future. The fee analyses in this report are based on full cost recovery.

Program Based Costing Model

As stated earlier, a program based costing model is used to calculate the cost of specific programs rather than specific fee items. A program may have many specific services for which fees are charged. These services may change frequently with changes in seasons or market demand. With a program based costing model, the objective is to calculate the cost recovery of the program and set prices for individual services accordingly.

For example, many Cities provide a robust set of classes as part of recreation services. Classes will change frequently. Market demand will cause one type of class to be dropped and another one added. Classes can be seasonal and will change from year to year. Because of these forces, it is unnecessary to calculate the cost of a specific class when it might be discontinued and others brought in to replace it.

The analysis of a program based costing model is focused on the allocation of overhead costs to the existing program budget. For example, the figure below illustrates the comparison of revenue with various types of costs: direct, indirect, and total costs.

Figure 3: Program Cost Analysis

Aquatic Program Costs (actual example)						
Revenue	Direct Program Costs	City Indirect Costs	Total Costs	Cost and Revenue Results	Revenue as a % of Direct Costs	Revenue as a % of Total Costs
\$ 216,683	\$ 220,793	\$ 54,582	\$ 275,374	(\$58,692)	98%	79%

In this example, one can see that program revenues fall short of direct costs by 2%. In addition, revenues fall short of total costs by \$58,692 or 21%. With this information, program staff can either leave individual service categories alone or reconfigure the mix of services to raise total revenues to a target that would be more appropriate.

Additional analysis can be generated from these data. Comparisons of cost recovery based on direct, program indirect, and citywide indirect costs can be generated. Leadership can then make informed policy decisions on what level of cost recovery is appropriate. For example, should cost recovery be based on?

- ◆ Direct costs only;
- ◆ Direct plus program indirect costs; or
- ◆ Direct, program indirect, plus Citywide indirect costs (total costs).

SUMMARY OF RESULTS

This project has completed the analysis for the following functions:

- ◆ Public Works/Development Engineering;
- ◆ Special permit parking fees;
- ◆ Water utility connection fees;
- ◆ Special events and filming fees;
- ◆ Fire Prevention;
- ◆ Ambulance services;
- ◆ Police and Business License Permits;
- ◆ Community Preservation;
- ◆ Recreation services; and
- ◆ Greystone Special Events.

SUMMARY – DRIVER BASED MODELS

The following figure summarizes the total cost of services, compares these costs with current revenues, and calculates the differences. For each of these services, a driver based costing model was created. The City will take ownership of these models at the conclusion of the project.

Figure 4: Summary of Fee Calculations

Service Area	Total Cost of Service	Revenue at Current Prices	Revenue at Full Cost Recovery
Public Works/Development Engineering	\$ 516,539	\$ 334,129	(\$182,410)
Parking fees	\$ 1,723,552	\$ 1,134,112	(\$589,439)
Special events and filming fees	\$ 459,926	\$ 366,188	(\$93,738)
Ambulance services	\$ 3,198,145	\$ 2,695,359	(\$502,786)
Community Preservation	\$ 48,758	\$ 34,393	(\$14,365)
Water utility connection fees **	\$ 2,592	\$ 1,311	(\$1,281)
Fire Prevention *	\$ 1,341,168	\$ 803,433	(\$537,735)
Police Fees	\$ 47,101	\$ 68,806	\$21,705
Business license permits	\$ 85,353	\$ 116,785	\$31,432
Totals	\$ 7,423,134	\$ 5,554,516	(\$1,868,618)
* Revenue at current prices is based on revenues from last fiscal year.			
** Connections for last fiscal year were unusually low			

We caution the reader that full cost recovery is not always in the best interest of the City. For example, some special permit parking fees are intentionally set at a price that is less than full cost.

Public Works/Development Engineering

The Public Works/Development Engineering work unit of the City provides traditional development engineering services. It serves the residential and commercial development communities by providing quality plan review and inspection services to these customer groups. In our analysis we calculated that the total cost of fee generating services is \$516,539 while the annual cost recovery (based on last fiscal year's activity levels) to be \$334,129. Costs included in the analysis are all salary and benefit costs, non-personnel costs, and ISF charges. As our explanation provided earlier we calculated productive hourly rates for each staff position. We also identified the major processes or activities required to process each service (fee). In focus group type of sessions we then worked with staff and leadership to estimate the time required to process each service by the activities necessary. Our analysis shows that if prices were to rise to a level that reflects full cost, the City should expect to generate an additional \$182,410.

Please see the appendix for the full breakdown of cost by fee categories.

Ambulance Services

The City of Beverly Hills recovers its costs of providing emergency medical services by charging those who require services. Our analysis included the labor, non-personnel, City ISF charges for all staff involved in providing ambulance service, and the estimated mileage costs of the engine and ambulance vehicles. Specific services included both Basic Life Support and Advanced Life Support services. We did not include the administration of medicines in our analysis as these are charged out on an actual cost basis.

Cost recovery for these services is challenging for the City for several reasons:

1. Insurance companies do not always reimburse for the full cost of services. For example they often do not pay if there is no transport to a local hospital even though the City provides significant on-site first responder services; and
2. Some people with no insurance refuse to pay their invoices.

In total, we calculated that the Ambulance services provided by the City consume \$3,198,145 based on last fiscal year's activity levels. However, we should also point out that billings do not equal revenue for the reasons outlined above. If full cost recovery could be achieved the City could expect to generate an additional \$502,786.

Fire Prevention

The Fire Prevention Bureau program includes Public Education/Special Events, Plan Check, Code Enforcement and Fire investigation. The Public Education/Special Events office issues temporary permits and establishes conditions to ensure public safety at large public and City sponsored gatherings. The Plan Check function ensures all new construction is in compliance with Health/Safety and Fire Codes.

Staff involved with these services include both Fire Prevention staff and engine company personnel. It should be noted, that when costs include engine company personnel we did not use all members of the engine company or the cost of the engine. Including these cost would not be appropriate as using engine companies serve dual roles. Besides making required inspections having engine company staff involved allows them the

opportunity to become acquainted with individual occupancies. This may provide additional security during an emergency. Therefore, our costs are based on the individual Fire Captain and his or her productive hourly rate.

For this study, it was determined that the existing fees schedule did not adequately reflect the range of services being provided. Therefore, the schedule of fees has been revamped to better reflect the types of services provided by the City of Beverly Hills. To do this, we modeled the schedule of fees used by the City of Santa Monica and then modified it to better reflect the needs of Beverly Hills.

Because of this, it is not possible to project a current level of cost recovery based the new model. However we do know what the cost recovery has been with the old model. This allows us to make a reasonable projection of additional cost recovery.

Based on our calculations, the cost of delivering fire prevention services that are cost recoverable is \$1,341,168. Total cost recovery for last fiscal year was \$803,433. This means that if the City were to choose full cost recovery it could expect to recover an additional \$537,735.

Please see the appendix for the full breakdown of cost by fee categories.

Parking Fees

The actual cost of processing a parking permit is relatively minor in relationship to the total cost of administrating the parking permit program. These costs come from three different primary sources:

1. Parking services;
2. Parking control;
3. Parking enforcement; and
4. Customer service.

To calculate the costs of parking permits, we first identified those staff within these work units that contribute to the administration of parking permits. Staff time was then allocated to five activities:

1. Preferential parking;
2. Residential overnight parking;
3. Caregiver parking;
4. Long/short term valet parking; and
5. Taxi permits.

From these staff time estimates we then calculated the costs for each activity. Based on our calculations, these costs are:

Figure 5: Parking Fee Allocations

Activity	Total Activity Cost
Preferential Parking	\$ 645,368
Residential Overnight	\$ 472,486
Caregivers	\$ 6,138
Valet (long/short) (permit)	\$ 274,832
Taxi (permit)	\$ 276,189
Totals	\$ 1,675,013

These costs were then reallocated to the individual parking permit types and divided by the annual number of units to arrive at a unit cost per permit. Our analysis indicates that the City is currently under recovering its cost by \$589,439.

Please see the appendix for the full breakdown of cost by fee categories.

Community Preservation Services

The Community Preservation Services responds to citizen complaints, inquiries, and proactively enforces compliance of property maintenance standards, nuisance abatement, building permits, business tax registration, zoning, and animal control. In addition, it oversees the inspection and regulations of rents within the City, and monitors real estate signs that are posted by local agents. Those services that generate fee revenue are relatively small compared to the total program. From our observation, this is normal. It is unusual to find community preservation services (code enforcement in many jurisdictions) to recover any costs outside of those revenues from fines.

Our Analysis indicates that the total cost of the fee generating services is \$48,758 and our projection of current revenue is \$34,393. Therefore, if the City were to determine that full cost recovery is in its best interest, it could expect to recover an additional \$14,365.

Please see the appendix for the full breakdown of cost by fee categories.

Police and Business Permits

The City administers a wide variety of business permits. Most of these are permits issued by or administered by the police department. In addition, the police department processes a wide variety of permits and applications such as concealed weapons permits and back ground checks. The total cost of these services provided by the police department is \$132,454 while our projection of current revenue is \$185,591. This results in a current over recovery of costs by a projected \$53,137. The breakdown of police fees vs. business license follows.

Figure 6: Breakdown of Police Categories

Category Type	Full Cost	Current Fee Levels	Annual Surplus (subsidy)
Police Fees	\$47,101	\$68,806	\$21,705
Business License Permits	\$85,353	\$116,785	\$31,432

It is our understanding that the costs of these services have been lowered by the police department assigning lowered salaried staff to processing these permits and applications.

Please see the appendix for the full breakdown of cost by fee categories.

Water Utility Connection Fees

The Water Services & Installations program responds to requests for new service and installations for increased capacity and manages water sales which reflect the effort to account for water provided to customers and the collection for those services. The Water Supply and Distribution generates revenues from fees for a wide variety of services including the rates customers pay for their water. The majority of these rates have been calculated as part of a current water rate study. Other rates are mostly hardware costs for items such as meters and these are sold at cost with an overhead markup. Costs for other services such as water installations are recovered by the division using previously calculated rates for equipment and water workers on a time and materials basis.

Consequently, this study focused on three categories:

1. Service restoration charges;
2. Fire flow tests; and
3. Water meter testing.

Based on activity data from last fiscal year our calculations indicate that the total cost for these services was \$2,592 while our projections of revenue from these services were \$1,311. It is our understanding that last fiscal year was an unusually low year of demand for these services. Therefore, we assume that demand will recover as the economy in general recovers. However, what is important to note is that current fee levels do not recover the costs of these services. If the City were to charge full cost it could expect to see more revenue.

Please see the appendix for the full breakdown of cost by fee categories.

Filming and Special Events

The City of Beverly Hills enjoys a robust and comprehensive program for serving the needs of the filming industry. This program is comprised of full time staff whose primary job is to facilitate and meet the needs of those engaging in filming within the City and sponsoring special events.

Our calculations indicate that the current fee levels are not fully recovering costs to the City. We have calculated that these services cost the City \$459,926 based on last fiscal year's activity levels. Our projection of revenue was \$366,188 or an under recovery of \$93,738. The breakdown of these costs and recovery levels by special events and filming follows.

Figure 7: Breakdown of Special Events and Filming

FEE CATEGORIES	Full Cost	Current Fee Levels	Annual Surplus (subsidy)
Special Events	\$157,724	\$58,812	(\$98,912)
Filming Permit Fees (per day)	\$302,202	\$307,376	\$5,174
TOTALS	\$459,926	\$366,188	(\$93,738)

It should be noted that these projections of current fee levels and revenues at full cost do not include the street rental fees that are sometimes part of special events. Our focus in this study was on time and process based services the City is providing. A street rental fee is more market and value driven.

Please see the appendix for the full breakdown of cost by fee categories.

Administration and Copy Charges

The City of Beverly Hills also administers a significant number of general administrative fees. These fees recover the cost of a variety of copy charges, City maps, agenda packets, etc. As with most fee for service, the City is limited to what it can charge which is cost. In addition, the City also must comply with the California Public Records Act which limits the cost recovery of public documents to the direct costs of producing copies and operating a copy machine. Cost that cannot be included are for the search and retrieval of public documents.

In our analysis we used the direct costs for copy machine operations including paper and energy that was provided by the City's vendor. In addition, we allocated a minimal amount of time for operating the copy machine.

Please see the appendix for the full breakdown of cost by fee categories.

SUMMARY – PROGRAM BASED MODELS

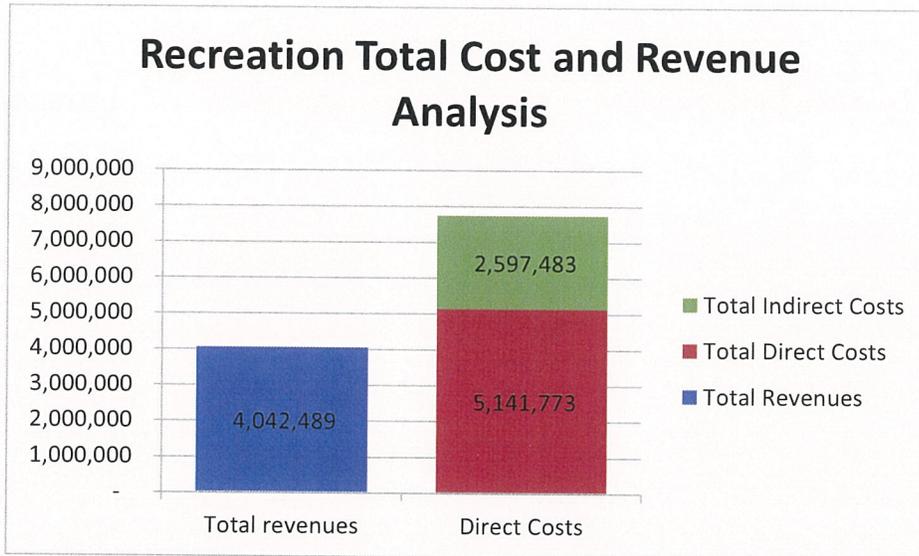
As stated above, Recreation Services and Greystone Special Event Services were analyzed at a program level rather than the level of individual fee items. Both of these work units have a wide range of individual fee items that are highly driven by a regional market for their individual services.

Recreation Services

The City of Beverly Hills enjoys a widespread and vigorous recreational program. Major service areas include extensive adult, youth, early education, and senior adult programs. Based on our calculations, these areas consume \$7,739,256 of total costs including administrative overhead. Total revenues from these services are \$4,042,489.

Graphically, the relationships between costs can be displayed as follows. It shows that 52% of total costs and 79% of direct costs are being recovered through service fees.

Figure 8: Recreation Cost and Revenue



The next graphic illustrates breakdown of costs and revenues by program areas. It shows the administrative services which have been reallocated to the direct support program areas. The analysis shows that some program areas are over recovering their costs while others are under recovering their costs. From our observations this is normal for recreation services. In addition, we would observe that recovering 52% of direct costs is about average for California jurisdictions. We should also note that the analysis does not include the nearly \$10,000,000 that the City pays to the Beverly Hills Unified School District through a Joint Powers Agreement(JPA) for the general use of its sports facilities.

Figure 9: Program Cost and Revenue

Beverly Hills Community Services Department - Recreation Division

Costs Allocated As Overhead To Other Programs

	Total Revenues	Direct Costs	Dept Overhead Costs	Total Costs	Revenues as % of Direct Cost
Recreation Administration					
Facility Rentals	134,548	143,660	104,016	247,677	94%
Youth Programs	-	92,680	67,104	159,784	0%
Adult Programs	-	64,501	46,701	111,202	0%
Senior Adult Programs	-	29,480	21,345	50,826	0%
Community Cultural Events	-	89,532	64,825	154,357	0%
Farmers Mkt	-	19,653	14,230	33,883	0%
Total Recreation Administration	134,548	439,506	318,222	757,728	31%
Total Departmental Overhead	134,548	439,506	318,222	757,728	31%

Program Costs

	Total Revenues	Direct Costs	Indirect Costs	Total Costs	Revenues as % of Direct Cost	Revenues as a % of Total Cost
Adult Programs 0106703						
Lease - LC Tennis	119,964	12,085	14,220	26,306	993%	456%
Tennis Court Fees	262,281	317,379	366,744	684,123	83%	38%
Sports Leagues	94,758	105,093	103,480	208,573	90%	45%
Adult Classes	67,505	158,132	89,376	247,508	43%	27%
Total Adult Programs	544,509	592,690	573,820	1,166,510	92%	47%
Early Education Programs 0106701						
Preschool	919,993	721,958	742,611	1,464,569	127%	63%
Childhood Classes	152,688	133,345	33,072	166,417	115%	92%
Total Early Education Programs	1,072,682	855,303	775,683	1,630,986	125%	66%

Program Costs (cont.)

	Total Revenues	Direct Costs	Indirect Costs	Total Costs	Revenues as % of Direct Cost	Revenues as a % of Total Cost
Youth Programs 0106702						
Aquatics	216,683	228,124	63,651	291,775	95%	74%
Camp Beverly Hills and Catskills	256,195	252,474	271,094	523,568	101%	49%
Afterschool Adventure Camp	287,864	405,524	497,580	903,104	71%	32%
Teenage Youth Svcs	6,419	55,115	63,906	119,020	12%	5%
Youth Sports Orgs.	109,757	1,440,504	32,861	1,473,365	8%	7%
Contractual Classes and Camps	1,407,324	1,075,549	105,972	1,181,521	131%	119%
Total Youth Programs	2,284,241	3,457,289	1,035,064	4,492,353	66%	51%
Senior Adult Programs 0106704						
Senior Nutrition	6,510	91,150	80,923	172,073	7%	4%
Senior Classes	-	145,340	131,994	277,334	0%	0%
Total Senior Adult Programs	6,510	236,491	212,917	449,407	3%	1%
Total Program Revenues/Costs	4,042,489	5,141,773	2,597,483	7,739,256	79%	52%

Greystone

Greystone special event fees are those services that take place at the Greystone facility. Specific service areas include weddings, special events, and filming. The analysis shows that the City is recovering 116% of its direct costs for delivering these services and 58% of total costs. As in Recreation Services, the analysis shows that some program areas are over recovering and some are under recovering. This is typical of these kinds of services as the prices are often driven by significant market forces. Because of this, setting prices for individual services is more a matter of staying consistent with market drivers than internal cost drivers.

Figure 10: Greystone Cost and Revenue

Costs Allocated to Greystone Programs

	Total Revenues	Direct Costs	Dept Overhead Costs	Total Costs	Revenues as % of Direct Cost	Revenues as % of Total Cost
Greystone						
Weddings & Receptions	89,023	141,591	158,127	299,717	63%	30%
Private Events	43,187	95,302	106,511	201,813	45%	21%
Filming	286,968	60,542	67,609	128,151	474%	224%
Misc Events: parking, tours, Fright Night	298,912	182,465	204,947	387,411	164%	77%
General Park Maintenance, upkeep, assist park patrons,	-	138,872	89,378	228,250	0%	0%
Total Recreation Administration	718,090	618,772	626,571	1,245,343	116%	58%
Total Program Revenues and Cost	718,090	618,772	626,571	1,245,343	116%	58%

OBSERVATIONS AND RECOMMENDATIONS

RECOMMENDATIONS – POLICY DEVELOPMENT

The scope of this project included recommending strategies to maintain and update fee schedules.

Our first recommendation is to establish policies governing the recovery of cost from fees. These policies should include:

- ◆ What costs should be recovered, if any. These costs can include:
 - Direct costs;
 - Indirect activity costs such as customer service at the public counter;
 - Department overhead costs; and
 - Citywide indirect costs.
- ◆ We recommend that city councils set cost recovery targets for those departments and divisions that generate substantial revenues from fees. For example, what is the cost recovery target for fire prevention? Many cities find that full cost recovery for fire prevention operations are not to be in their best interest. Others feel the cost of fire prevention should be fully recovered.

Once the cost recovery targets and policies have been set, we recommend giving local staff the flexibility to set individual fees. Local staff have the understanding of their individual customers and can most accurately determine the mix of fee modifications to bring cost recovery to the level desired by the Council.

Other considerations in fee-setting besides the analytical cost recovery objectives include key questions such as:

- ◆ Is it feasible to set fees to the full cost recovery level?
- ◆ Will increasing fees result in compliance or public safety problems?
- ◆ Do adjustments in fees adversely affect other City goals?
- ◆ Are there other opportunities for restructuring services that that might bring costs into better balance with revenues?

GENERAL RECOMMENDATION ON ADJUSTING FEE SCHEDULES

We recommend annual adjustments to fees wherever possible. It is our understanding that the City of Beverly Hills follows this pattern. Therefore we affirm this practice. We also recommend a complete review of costs for fee services every three to five years. With the annual update of fees we recommend using a simple CPI

increase. For example, if the labor cost for the City goes up by 2% then adjust each fee by 2%. This is the simplest and most common method of adjusting fees annually. It is our observation that the regulatory requirements change enough within a three to five year time frame that a comprehensive review of costs is then warranted. It is our understanding that the City of Beverly Hills updates fees annually using the Consumer Price Index for Los Angeles, Riverside, and Orange County.

GENERAL OBSERVATIONS AND RECOMMENDATIONS

Throughout this project we have made general observations and have communicated these observations during our time with staff. The following observations are only intended to provide some general ideas that may benefit the City.

1. The City of Beverly Hills has the most extensive and robust fee schedule we have seen after completing over 60 such studies. While the number of fees is not in question the organization of them are. Currently the master fee schedule is organized by the physical location a permit or application is processed. This has definite value as customers know where to go within the City to inquire of a service they may need. However, it is also confusing for those who must work with the fees. For example, the permit for a tent or canopy that requires a fire prevention plan review and/or inspection is found in the business permit section of the fee schedule. From our experience, these services are always in the fire prevention fee schedule and are managed from this operating unit.

Our recommendation is to place the schedule of fees in a database rather than a Word document. In this way, the schedule can be sorted by both physical location for the purpose of customers, and also by the work unit that is actually doing the processing. In this way, the work unit can better manage the set of fees that reflect the services of the work unit and maintain consistency with the latest regulations.

2. Productive hours. We observe that the City uses a standard number of productive hours of 1880 to calculate productive hourly rates. The following graphic shows how this number is not sufficient to fully reflect the number of hours available for productive work.

Figure 11: Calculation of Productive Hours

Average Productive Hours Calculation	
Annual Hours	2080
Average vacation hours (3 weeks)	(120)
Paid holiday time (13 days)	(104)
Average sick leave	(96)
Total	1760

In addition, this simple calculation does not take into consideration routine staff meetings, professional certification training requirements, in-service training requirements such as emergency preparedness, regional meetings that many staff are involved with, and the two fifteen minute breaks per day that the Federal Government mandates. Our observation is that 1650 is a better average and more accurately reflects that actual time available. However, we also encourage productive hourly rates based on the actual time available from each position.