



# TOWN OF FAIRFAX

## SUPPLEMENTAL STAFF REPORT

### October 2, 2019

**TO:** Mayor and Council

**FROM:** Garrett Toy, Town Manager

**SUBJECT:** Adopt resolution amending the Town's Master Fee Schedule to update all fees and permits from 2009

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*(This report replaces the previous staff report)*

#### **RECOMMENDATION**

- 1) Conduct Public Hearing
- 2) Adopt resolution amending the Master Fee schedule

#### **BACKGROUND**

The last time the Town conducted a user fee study and cost allocation plan was in 2009. The purpose of a fee study is to identify the costs of all operational services that are either currently charged a fee or could be charged a fee. A cost allocation plan (CAP) identifies the indirect costs (e.g., departmental overhead, finance services) associated with the provision of the direct services (staff salary & benefits). The objective is to identify the "true or full" cost (direct and indirect costs) for staff to provide the services. While operational costs have increased since 2009, other than increases to facility rental fees, almost all the Town fees have remained at the same level since 2009.

In July 2018, the Council approved an agreement, in an amount not-to-exceed \$25,000, with Revenue & Cost Specialist, LLC (RCS) to conduct a User Fee Study and Cost Allocation Plan. With the updated full cost information, the Town Council will be able to evaluate its current fees and consider any fee adjustments (increase/decreases) based on its cost recovery policy for that specific service (e.g., rental fees). This information also allows the Town to evaluate its current fee structures (e.g., flat fees, valuation-based fees) and consider adjustments to recover costs in the most equitable and efficient manner.

#### **DISCUSSION**

RCS, with assistance from City staff, completed a comprehensive cost of services study. The Study identifies the beneficiaries of those services and determines if they are paying in relationship to benefits derived or if they are deserving of a subsidy paid from the taxes paid by all local citizens and businesses. This study was completed by subjecting the City's operations to a detailed analysis seeking alternate and more equitable ways to finance its services.

The attached Fee Study (Study) indicates that there is a significant shortfall between the actual costs (e.g., staff time) to provide the fee financed services and the revenues collected to cover the costs of the service. In essence, the Town is subsidizing the costs for fee financed services such as Planning and Building fees/permits. This comes as no surprise since the Town last increased, other than facility rental fees, its fees for services in 2009

If all the recommendations and suggestions in the Fee Study were adopted, the Town would increase its cost recovery by upwards of \$270,000 (pg. 32) on annual basis. In discussions with the Town Council's Finance Subcommittee, consisting of Mayor Coler and Vice Mayor Goddard, we are recommending a phased increase of Planning and Building fees/permits over a six (6) year period. The initial increase would take effect July 1, 2020, providing for an ample noticing period to the public.

The study indicates the current overall cost recovery rate to be approximately 50%. The proposed fee increases will significantly increase the overall cost recovery rate to approximately 70% at the end of the six year period. The Council Finance Subcommittee considered each individual fee and determined what we believe to be a fair and reasonable fee structure given the type of service (e.g., use permit) provided, number of applications, and other sources of revenues to offset the costs. In some cases, the service will now be provided on a deposit basis in which staff applies their actual time and outside professional services costs against the deposit. Outside professional services are billed at actual costs plus 20% administrative overhead fee for administering the contract.

Staff has prepared the following tables to assist in the Council's review of the proposed fees:

**Table A-** shows the proposed fee increases over the 6 year period. Column 1 shows the current fee. Column 2 shows the recommended fee which would take effect on July 1, 2020 (FY20-21). Columns 3-8 shows the proposed "phase-in" period for a fee each year. The Council Subcommittee and staff believe that to increase the fee all in one year would place an undue burden on applicants and could create a disincentive to obtaining the required permits. The phase-in period increases fees by 10% per year for Planning Fees. Please note that not all fees require a phase-in period.

**Table B-** Column 3 shows the amount of total revenue collected for each service fee. Column 4 is the actual cost for the service provided. Column 5 is current cost recovery percentage. Column 6 shows the projected cost recovery percentage after year 6 (FY25-26). Overall, we anticipate the Town's total cost recovery will increase from approximately 50% to 70% over the 6 year period.

Please note that for those fees that require deposits, they are based on actual cost and are considered 100% cost recovery. However, deposits and some fees are difficult to project in this model because the Town may not receive an application in any given year. As result, this model is a rough estimate of the overall cost recovery percentage. The model does project that in the first year overall fees would increase significantly, upwards of 24%, and then an average of 3% per after that. However, if one considers that fees haven't been increased in ten years (2009-2010), the increase averages a nominal 2.4% per year over the ten year period. In essence, the overall revenue increase reflects annual CPI.

**Table C-** shows the proposed fee increases for building fees/permits over the 6 year period. Building fees/permits are increased 5% per year.

Please note that only the Planning and Building Fees are proposed to be phased-in over time. All the other non-Planning and Building fees would be increased on July 1, 2020. These other

fees would be evaluated as part of the annual budget approval process with any recommendations to Council made at that time.

For your reference in reviewing the Study, we suggest special consideration be paid to the following:

- Pages 21-23 details all services studied and the resources currently used to finance these services.
- Pages 27-31 summarizes the services by department or type
- Table 5 on page 32 shows the summary of the total possible new revenue which would if fully adopted would increase the overall cost recovery rate to approximately 70% [i.e., (total fee revenue \$595k + possible new revenue of \$270k)/total service cost of \$1,206k] *At the end of the six year period, the proposed fee increases will achieve the recommended 70% cost recovery goal.* In other words, the Town's overall fee subsidy level would drop from 50% to 30%.
- Page 229-231, Appendix C details building fees
- Pages 233-236, Appendix D details recreation fees

It should be noted that the proposed recreation fees are based on staff direction and are not RCS recommendations. The reason is that these revenues are not easily predicted. RCS states that this category of service is demand driven, and 100% cost recovery is not possible among most, if not all, communities. We are currently subsidizing these services at an average of 75%. The proposed rental and program increases were discussed with PARC and the Town Council Finance Subcommittee. The proposed modest increases are based on staff's evaluation of the users' willingness to pay for services. Overall, rental rates are proposed to be increased \$5-\$10 per hour and would be reviewed on an annual basis.

### **FISCAL IMPACT**

Beginning in FY20-21 and continuing for another 5 years, the Town would increase its overall cost recovery for services to approximately 70% compared to the current 50% level. We anticipate a very significant increase in fee revenues beginning in FY20-21 followed by more modest percentage increase in fees in subsequent years.

### **ATTACHMENTS**

- A. Table A (revised)
- B. Table B
- C. Table C (revised)
- D. Resolution w/attached fee tables
- E. Refer to the Fee Study attached to the initial staff report