

MEMORANDUM
OFFICES OF THE
COUNTY EXECUTIVE
AUDITOR-CONTROLLER
COUNTY OF PLACER

TO: Honorable Board of Supervisors
FROM: Thomas M. Miller, County Executive Officer
by Allison Carlos, Principal Management Analyst
Kathy Martinis, County Auditor-Controller
DATE: November 8, 2011
SUBJECT: Fees and Other Charges

ACTION REQUESTED

Receive an informational report on fees and other charges for county services.

BACKGROUND

On a regular basis, your Board receives budget updates, including in more recent years, the effects of the 2008 economic decline upon the County's primary revenue sources (property and sales tax, and federal and state intergovernmental revenues), reserves and debt. As public agencies are dealing with severe revenue declines in these core categories and there is public interest in how government uses funds, there is increased attention to other revenue sources. In response to your Board's specific request, this staff report provides information pertaining to the significant, but less discussed revenue source, fees and other charges.

Numerous Placer County countywide and municipal services are funded in whole, or in part, by fees and charges. The category that mainly captures these revenues comprises 7% of the projected revenues in the FY 2011/12 Final Budget. The majority of service revenues included in this category are calculated by the County; however some calculations come from the state or other outside agencies. While this may be a proportionately small share of overall funding, these dollars are substantial and enable the delivery of specific services or goods to the user. Attachment A provides a list of many of the services the County provides by this funding source.

County legal authority to impose fees and other charges

Fees and other charges are distinguished from taxes and assessments. Counties have little discretion over property tax collections since Proposition 13, and other special taxes and assessment increases must be voter approved.

The nature of the fees generally depends on whether they relate to regulatory or discretionary activities. Essentially, the characterization of a fee in this regard speaks primarily to the form and process for implementation. The County's legal authority to impose fees and other charges is derived through: (1) state law and (2) local provisions (County Charter, County Code, Policies, and General Plan). Attachment B provides a more comprehensive outline of enabling laws, regulations, rules, and policies for this revenue generation. In providing services, fees cannot exceed the cost for service.

Placer County approach

A widely accepted public sector pricing principle is that fees and other charges should be set at a level that recovers the full cost of providing the services, unless there is an overriding decision for subsidizing a service. This principle is affirmed in multiple locations in Placer County Code, Section 2, and the Placer County Budget and Financial Policy, last updated by your Board on June 7, 2011, stating:

Placer County Budget and Financial Policy Section 2.2.3 – “Imposing or adjusting fees or other charges will be periodically evaluated for any service provided by the County where full cost recovery—including department and County administration—is not currently achieved. Budget estimates will not include fee increases unless the Board of Supervisors has approved the increase”.

Full cost recovery concepts are difficult to discuss in this economy, and there are mixed opinions and perspectives regarding the wisdom of imposing or increasing user fees to this degree. While there are many instances where full cost recovery is not occurring, it is important to highlight that in many cases those subventions contribute to an overall compression on the use of our most discretionary revenue dollars, property and sales tax. In preparation for this item, staff conducted a rough survey of some departments on current cost recovery. Depending upon the type of activity and without in-depth analysis, we estimate that current cost recovery rates from fees and charges range between 50-100%.

Notwithstanding the sensitivity of this issue, for the purposes of this report, staff discusses this matter in the context of the full cost recovery as the goal.

In developing charges and fees, good practices typically include:

- Clear understanding of fully loaded costs
- Application of a consistent approach through countywide policies and procedures
- Application of value principles, such as efficiency and quality

In early 2009, an evaluation of countywide policies and procedures began with one focus area being in the development of a countywide Charge-Out Rate Policy (Attachment C). The policy was developed and/or reviewed in coordination with the Placer Administrative Manual Committee, including the Auditor-Controller and County Executive Office, and multiple departments' administrative and accounting staff. The policy went into effect last fall. Policy highlights are:

- Affirms department head responsibility for use of the charge-out rate policy
- Affirms importance of department review of the organization's business practices so work is performed at most efficient and cost effective classification level
- Provides guidance on charges and fee calculation methodology, including direct and indirect (overhead) components
- Provides examples of components for calculation of a fully loaded rate
- Establishes a procedure for including Auditor Controller's Office in review process

206

At the time of development of the policy, it was determined that guidance for calculation of fully loaded rates would be helpful, for both internal and external application. While there are numerous suitable methods for calculating that rate, we clearly identified that some parameters would be beneficial. Therefore, a significant portion of the policy is dedicated to providing that guidance. Beginning on page 2 of Attachment C, Charge-Out Rate Policy, there is a detailed description and methodology for fee calculation. This represents the general guidance but it should be noted that there are a variety of acceptable ways to calculate rates. The policy does include a clause for addressing exceptions on a case-by-case basis. The key elements to include are:

- Direct costs: Salary and Benefits and other direct costs (i.e., services & supplies)
- Indirect costs: Departmental overhead, countywide overhead

When the fees are initially adopted by the Board, common practice is for inclusion of an automatic annual inflationary factor or Cost of Living Adjustment (COLA) in order to ensure the fee keeps pace with inflation. This is a suitable approach with the recognition that an annual review should consider the appropriateness of a COLA in relation to current conditions.

Other Jurisdictions

Generally, local government fee and charges structures are similar to Placer County, (e.g., permit fees, assessments, and inspection fees). Staff informally reviewed recent activity of what has been occurring in the region. We found there are assorted approaches with some increasing utility rates and other services costs while others have reduced select fees and held inflationary factors flat. In some cases, user fees for example for parks and recreation have increased.

For land development related activity, some implement full cost recovery resulting in changes in fee charges while others seem to have made decisions to effect some reductions, perhaps without full cost recovery.

Conclusion

The County Executive Office and Auditor-Controller's Office continue to work together to more fully implement the County policies. At this time, as part of the overall roll out of the new Placer Administrative Manual, the County Executive Office staff is highlighting the Charge Out Rate policy to departments.

There is continued attention and interest in providing quality and efficient services that are funded through fees on a full cost recovery basis, unless otherwise determined by your Board on a case-by-case basis.

As items pertaining to charges and fees come to your Board, there is an expectation that information is provided consistent with the intent of the policy such that you are able to make an informed decision as relates to laws, regulations and policy.

FISCAL IMPACT

There is no fiscal impact identified as this is an informational item only.

Attachments:

Examples of Services Funded by Charges and Fees
Detail of Legal Authority
Charge-Out Rate Policy

**EXAMPLES OF SERVICES
FUNDED BY CHARGES & FEES**

CHARGES FOR SERVICES

**Assessment & Tax
Collection Fees**

SB 2557 - Tax Admin Fee-
Districts
SB 2557 – Tax Admin Fee-Cities
Assessment/Tax Collection Fees
Data Request – Assessor

Special Assessments

Supplemental Prop Taxes-5%
Admin Fee

Auditing & Acctg Fees

Account/Audit Fees

Election Services

Candidate Filing Fees
Election Services
Candidates Statement Fees

Legal Services

Legal Services – Insurance
Legal Services
Public Defender Fees

Personnel Services

Personnel Services

**Planning & Engineering
Service**

Parcel Split Applications
Planning/Engineering Services
Design & Construction
Engineering
Surveying & Mapping Services
Services & Engineering
Planning Applications
Inspection Fees – Construction
Plan Check Fees
Environmental Applications
Land Use Applications
Other Multi Dept Applications
TRPA
Mitigation Fees
Planning – At Cost Projects
Fees
Map Check Fees

Agricultural Services

Agricultural Services / Fees

Civil Process Fees

Civil Process Services

Court Fees & Costs

Dispute Resolution Program
Fees
Court Fees/Costs
Installment Fees (PC 1205)

Estate Fees

Estate Fees

Humane Services

Humane Services
Spay/Neuter Fees

Law Enforcement Services

Law Enforcement Services
Court Appearance Fees
Pre-Sentence Investigation
Report
Jail Booking Fees
Traffic Control

Recording Fees

Recording Fees
County Clerk Fees
Electronic Recording Fees
Recording Fees Recorder
Micrographic Fees
Recording Fees Vital Statistics
Redaction Fees
Recorders Automation Fees

Road & Street Services

Reimbursed Road Projects

Health Fees

Inspect Fee Storm water –
Restaurants
Health – Site Review
Food Certifications
Inspect Fee EH – Public
Drinking Water
Health Fees
Public Health Lab Services
Inspect Fee Septic Onsite
Monitor & Maint.
Underground Tank Cleanup

Mental Health Services

Mental Health Patient Revenue
Mental Health Services

Sanitation Services

Solid Waste Inspections
Septage Service Chg – Mo

Adoption Fees

Adoption Fees

Institution Care & Service

Clinic Registration Fees
Laboratory Fees
Institution Care & Services
Patient Care Other
Clinic Fees & Ins
Adult Work Release
Electronic Monitoring

Educational Services

Training Fees

Library Services

Law Library Services

Parks & Recreation Services

Parks & Historical Sites –
Services
Park & Recreation Services

Other Charges for Services

Admin Services – Admin
Support
DPW Administrative Services
Data Processing Services
NSF & Misc Fees
Drug Ct Appt Fees
Juv Sealments Fee
Food Service Sales
Other Services
Investment Services
Buildings & Grounds Services
Fire Services
Other General Reimbursement
Right of Way
Administrative Support Services
Forms and Photocopies
Sale Tax in Lieu
Gold Rush Program Fees
Living History Program Fees
Facility Services Admin Support
Archives Revenue
Gold Panning Revenue

DETAIL OF LEGAL AUTHORITY

A. State Law

- California Constitution Article 11, Section 7 - A county or city may make and enforce within its limits all local, police, sanitary and other ordinances and regulations not in conflict with general laws.

- The Mitigation Fee Act: Government Code Chapters 6-9
 - a) *Government Code 66000 et Seq. Nexus Requirement for Development Projects*
Code requires the local agency to demonstrate a reasonable relationship between the amount of the fee and the cost of a public facility or type of development project¹ on which the fee is imposed. The demonstration of a nexus relationship, along with the General Plan policies listed below, are the foundation for the adoption of the Countywide Facility Impact Fees in October, 1996.

 - b) *Government Code Section 66013 - Water and Sewer Connection Fees*
Code requires that water and sewer connection fees do not exceed the estimated reasonable cost for providing the service. If the fee exceeds the reasonable cost, it is subject to a two thirds vote of the electorate for approval.

 - c) *Government Code Section 66014- Zoning, Use Permits, Building Permits, Filing and Processing Applications, LAFCO, Processing Maps, and Planning Services*
Code requires that Zoning, Use Permits, Building Permits, Filing and Processing Applications, LAFCO, Processing Maps, and Planning Services fees do not exceed the estimated reasonable cost of providing the service. If the fee exceeds the reasonable cost, it is subject to a two thirds vote of the electorate for approval.

- Fees Requiring Approval by the Board of Supervisors
Government Code 66016 describes the procedure for new fee or service charge or an increase to an existing fee that are included in section (d) below.

¹ Development project means any project undertaken for the purpose of development. This includes a project involving the issuance of a permit for construction or reconstruction, but not to operate. GC 66000 (a).

DETAIL OF LEGAL AUTHORITY (CONTINUED)

In sum, the key provisions of GC 66016 are:

- A public hearing is required,
- Interested parties shall be mailed a notice 14 days prior to the meeting including a statement that the data required is available,
- Ten days prior to the meeting, the agency shall make available the data for estimating the cost of the service for which the fee is levied,
- The fee may not exceed the cost of service,
- The approval of the new or increased fee requires an ordinance or resolution.

Note: Section (d) code sections refer to fees related to the following services: Cancellation of timberland contracts, LAFCO, planning commission, specific plan approval, closure or conversion of mobile home parks, use permits and zoning variances or changes, parcel mergers, building permits and application fees, waste management plans, and airport land use commissions.

- In 1996, California voters approved Proposition 218, "The Right to Vote on Taxes Act", that together with Proposition 13 (1978) and Proposition 62 (1986), greatly restricted local government revenue-raising taxes, assessments, and property related fees.

B. County Provisions

1. County Charter

Sec. 102 Powers. The county (as a political subdivision of the state) has and shall have all the powers which are now or may hereafter be provided by the Constitution and the laws of the State of California and by this Charter

Sec. 103 Exercise of Powers. The powers mentioned in the preceding section shall be exercised only by a Board of Supervisors or through agents and officers acting under its authority or authority conferred by law.

Sec. 602 Fiscal Provisions. General law shall govern the assessment of property, the levy and collection of taxes, the adoption of the county budget, and the appropriation, accounting and transfer of funds unless otherwise provided for in this Charter or by ordinance.

DETAIL OF LEGAL AUTHORITY (CONTINUED)

2. Placer County Code

Section 2 has numerous provisions for specific services fees, for example:

2.123.020 Criminal Justice Fees; 2.123.030 Health and Human Services Fees,
2.124.040 Probation Department Fees; 2.124.060 Indigent Public Defense Program
Fees

3. The County General Plan

The County General Plan states that the County shall require new development pay: (1) "the cost of all existing facilities it uses based on demand for these facilities attributable to new development", and (2) "the cost of providing public services that are needed to serve new development", and (3) the cost of "upgrading existing public facilities or construction of new facilities that are needed to serve new development". (General Plan Sections 4.B.1 through 4.B.6). These General Plan provisions along with Government Code 66000 are the foundation for the adoption of the Countywide Facility Impact Fees in October, 1996.

4. Budget and Financial Policy

Section 2.2.3 of the County Budget and Financial Policy states, "Imposing or adjusting fees or other charges will be periodically evaluated for any service provided by the County where full cost recovery—including department and County administration—is not currently achieved. Budget estimates will not include fee increases unless the Board of Supervisors has approved the increase".

5. Placer County Charge Out Rate Policy

This policy establishes basic expectations for departments for calculating a charge out rate or fee. In general, the charge out rate is based on actual costs and includes: direct salaries and benefits for the staff person performing the service, other direct costs (supplies), department overhead, and countywide overhead or A-87. A first step in the process is for the department review of their organization's business practices to affirm work is performed at the most efficient and cost effective classification level. The Auditor's Office will review the fee methodology for compliance and reasonableness.



PLACER COUNTY CHARGE-OUT RATE POLICY

1.0 POLICY

- 1.1 The purpose of this policy is to provide guidance to Placer County departments on the calculation of the fees, rates or charges associated with the services provided. Placer County may impose a fee, charge or rate for services it provides. This policy applies to all departments.
- 1.2 This policy establishes the County Executive Officer, or designee to establish policies promoting the adopted charge-out rate methodology necessary to conduct the business of the County.
- 1.3 This policy establishes that department heads are responsible for the accurate application and use of the charge-out rate policy as set forth in this policy.
- 1.4 Generally, departments should charge-out a fully loaded rate using *actual* costs. The components typically used to calculate a fully-loaded rate would be:
- Direct Salaries and Benefits
 - Other Direct Costs i.e.; Services & Supplies
 - Departmental Overhead
 - Countywide Overhead
 - Replacement/Inflation Charge (*ISF/Enterprise Funds only*)
 - Working Capital Reserve Charge (*ISF/Enterprise Funds only*)

Definitions to determine direct costs versus indirect costs are found in Section 4.0.

- 1.5 Following are some exceptions to the general rule.
- a. Budget vs. Actual costs. There may be circumstances where waiting for actual cost data may result in a loss of funding. In those instances, it is permissible to use budget data in the calculation.

CHARGE-OUT RATE POLICY

- b. Specific Provisions. Certain grants or funding sources may cap the amount of indirect costs that may be charged or may specify which costs may be considered direct. In those instances, departments should follow the directions provided by the grantor/funding agency.
- c. Charges other than Hourly and Flat Rates. Some departments may develop charges based on criteria other than hourly rates. The principal of "fully loaded" costs would still apply and the department should ensure that it includes all departmental and countywide overhead when deriving the rates to be charged.

2.0 PROCEDURE

After the Department performs the calculation as outlined in this policy, it should be submitted to the Auditor-Controller's Office, with supporting documentation, for review and comment.

3.0 METHODOLOGY

3.1 CALCULATING OVERHEAD:

Departments can calculate their "indirect" cost rate by identifying how much of their actual expenditures at the appropriation level are "direct" costs versus "indirect" costs. First, *reduce* the total expenditures by any Fixed Assets and *increase* total expenditures by any Intra Fund Transfers-In. Then, identify how much of the total adjusted expenditures are "direct" and "indirect". Identify the A-87 amount from the County Cost Allocation plan prepared by the Auditor-Controller's Office. Now calculate a percentage by dividing the total "indirect" costs by the total "direct" costs.

Total expenditures	\$3,950,865
LESS: Fixed assets	(10,000)
PLUS: I/T transfers in	<u>140,000</u>
Adjusted expenditures	\$4,080,865
Departmental Indirect	\$1,450,040
A-87 Costs	<u>621,525</u>
Total Indirect	\$2,071,565
Total Direct	\$2,630,825
$\\$2,071,565/\\$2,630,825 = 78.74\%$ Overhead Rate	

214

CHARGE-OUT RATE POLICY

3.2 HOURLY RATE CALCULATION:

When calculating the hourly rate, it is important that the department has reviewed the organizations business practices to affirm that work is being performed at the most efficient and cost effective classification level so as to not overstate or understate costs to perform services.

Calculation:

Identify annualized Salary and Benefits expenditures by classification within the department. Calculate the total productive hours for the same classification. (*Refer to Productive Hours Calculation example attached*). Divide the annualized expenditures by the productive hours to get an hourly rate. Then include departmental overhead rate and countywide overhead rate to get a fully-loaded hourly rate for the specific classification.

Example:	Total Salaries & Benefits	\$72,800
	Total Productive Hours	1,646

$$\$72,800/1,646=\$44.23 \text{ Hourly rate}$$

$$\$44.23+(\$44.23 * 78.74\%)=\$79.06 \text{ Hourly rate including fully-loaded overhead}$$

3.3 FLAT RATE CALCULATION:

Some departments may develop "flat rate" charges for certain services. In those instances, the department should calculate their total costs, including overhead and A87 costs, as shown in Section 3.1 above. However, rather than calculating an overhead percentage, they would divide the total cost by the number of instances of service those costs are expected to cover. Using the example in Section 3.1, the calculation would be:

Departmental Indirect	\$1,450,040
A-87 Costs	<u>621,525</u>
Total Indirect	\$2,071,565
Total Direct	<u>\$2,630,825</u>
Grand Total – All Costs	<u>\$4,702,390</u>
Expected Number of services per year	5,000
	$\\$4,702,390/5,000 = \\$940.48 \text{ Rate per Service}$

3.4 HOURLY & FLAT RATES IN ONE DEPARTMENT:

A department may use both hourly and flat rates by identifying direct costs attributable to each function and allocating the indirect costs proportionately.

4.0 DEFINITIONS AND PRODUCTIVE HOURS CALCULATION EXAMPLE:

DIRECT COSTS:

A direct cost, as defined in OMB A-87, is a cost that can be identified specifically with a particular final cost objective. OMB A-87 notes that typical direct costs are:

1. Compensation (salaries and benefits) of employees for the time devoted and identified specifically to the performance of a particular service or program;
2. Cost of materials and services acquired, consumed, or expended specifically for the purpose of those services or programs;
3. Equipment and other approved capital expenditures; and
4. Travel expenses incurred specifically to carry out the service or program.

A department may receive a service furnished specifically for a particular function from another department. The allowable direct costs associated with the department providing this service, plus a proportionate share of the allowable supporting costs and supervision directly related to the service, would be considered direct costs of the receiving department.

INDIRECT COSTS:

OMB A-87, Attachment A, Section F, defines indirect costs as those costs that are:

1. Incurred for a common or joint purpose; or
2. Not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved.

This same section notes that the term "indirect costs" used in the circular applies to costs of this type originating in the billing department, as well as those incurred by other departments in supplying goods, services, and facilities, and states:

To facilitate equitable distribution of indirect expenses to the cost objective served it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department.

Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

CHARGE-OUT RATE POLICY

PRODUCTIVE HOURS CALCULATION EXAMPLE:

An exercise to calculate the actual hours that are considered "productive" hours is shown below. *Keep in mind that you should use "average" usages (ie: vacations range from 2 to 5 weeks; use the average usage for the department/unit).*

Example:

Total Annual Hours	2,080
Vacation (3 weeks)	(120)
Sick Leave (8 days)	(64)
Holidays (12 days)	(96)
Training	(10)
Other (ie: breaks, staff meetings)	<u>(112)</u>
	1,678

		<u>Annual Salary/Productive Hours</u>	<u>Hourly Rate</u>
Property Tax Accountant	\$50 hr. x 2080 =	\$104,000/1,678	\$61.98
Payroll Accountant	\$35 hr. x 2080 =	\$72,800/1,678	\$43.38
Administrative Clerk	\$20 hr. x 2080 =	\$41,600/1,678	\$24.79

