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Audit Report

FEE STRUCTURE REVIEW

June 2004

Office of the City Auditor
Austin, Texas

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City of Austin



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June 22, 2004

To: Mayor and Council

From: Stephen L. Morgan

Subject: Fee Structure Review Report

Attached is our report on the Fee Structure Review audit. This audit arises from our Revenue Accountability Project, which has produced nine other products related to revenue streams since 2002. In this project, we reviewed the City's process of setting and evaluating fee levels and structures, primarily for fees administered by general fund departments since 2002.

In general, we found that the Budget Office has made significant improvements in setting and evaluating fees by guiding departments through a more comprehensive formal review of all fees. Management is in the process of formalizing these improvements in a written policy which establishes a full review on a two-year cycle.

We found that the process can be further improved by classifying fees based on their purpose, constituencies, cost basis, or other considerations. Further, the process can be improved by setting cost-recovery targets for each class of fees as a matter of policy, and evaluating all fees against a rigorous and consistent calculation of costs of service which starts with a full allocation of overhead costs to potential fee areas. The fee review process and the recommended improvements should be formalized in written policies and procedures that define roles for the entire process.

We appreciate the cooperation we received from staff in the Budget Office, the Controller's Office, the Parks and Recreation Department, and the Health Department.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM
City Auditor



ACTION SUMMARY FEE STRUCTURE REVIEW

Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
01.	In order to study fully the complex issues related to setting fees, the City Manager should appoint a staff committee comprised of representatives of the Budget Office, the Controller's Office, and a sample of operating departments to guide the implementation of the recommendations in this report.	Concur	January 1, 2005
02.	In order to allow for effective administration of the wide variety of fees, the Budget Officer, aided by the committee named above, should develop a useful system of classifying fees based on factors such as constituencies, purpose of the fee, or underlying basis for the fee, such as cost of service, market rates, or infrastructure maintenance.	Concur	January 1, 2006
03.	The City Manager, through the staff committee named above, should develop cost accounting standards for City departments to ensure that each department can reasonably estimate the full cost of providing each fee service on both a total cost and unit cost basis. These standards should take into consideration both direct and indirect cost, including reasonable allocations of citywide and departmental overhead cost to each fee service. The standards should recognize that cost of service calculations should be reasonable, but not so costly to perform that they undercut efficient administration of the fees.	Concur	March 2005

Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
04.	The Budget Officer, aided by the committee named above, should evaluate the costs and benefits of using City resources or bringing in outside expertise to identify all cost objects, allocate indirect costs to each object, and calculate full cost-recovery rates for each fee area.	Concur	March 2006
05.	<p>In order to ensure consistent evaluation of fee levels and structures, the Budget Officer, in consultation with the operating departments, should develop a written policy (or policies) and procedures for ongoing evaluation that includes the following:</p> <ul style="list-style-type: none"> • steps in the evaluation cycle, • duties of each participant in the process, • frequency of evaluation, • reference to cost accounting standards, • calculation of cost-recovery rates, • establishment of cost-recovery targets for each fee, • provision for auditing cost estimates and recovery calculations. 	Concur	October 2005
06.	To ensure full information to policy makers on the extent to which services are subsidized by general revenues, the Budget Officer should present to Council cost-recovery targets for each fee service and should publish periodically the actual cost-recovery achieved on both a per-unit and total recovery basis for each fee.	Concur	September 2010 (First fees by July 2006)

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BACKGROUND

In 2002, the Office of the City Auditor (OCA) performed an audit survey for our Revenue Accountability Project, which provided the basis for the following completed projects:

- two property tax audits,
- three sales tax audits and one non-audit memorandum on access to sales tax data,
- an audit of Anti-Litter Services Fees, and
- an audit of Transportation User Fees and Drainage User Fees.

During that survey, OCA learned that the Budget Office was also increasing attention to revenues by contracting with Public Financial Management (PFM), the City's financial advisor, to study potential new and existing user fees. The outcome of the PFM project was documented in a four-volume *Report on Non-Tax Revenue Initiatives*, which was the basis for creating or increasing several fees in the FY 2003 budget. The PFM revenue initiative was still underway when the Revenue Accountability Project survey was conducted, so the survey identified potential risks associated with the revenue initiative and suggested the process of setting and evaluating fees as a potential future audit. This project was included in the OCA Annual Service Plan for this year. On beginning the project, we learned that the Budget Office had adapted the methodology from the PFM revenue initiative to perform a more comprehensive revenue initiative this year.

OBJECTIVES, SCOPE, AND METHODOLOGY

Based on our review of the PFM revenue initiative, the current City fee schedule, and Budget Office documentation of fee changes for FY 2003 and FY 2004, we developed these objectives:

- Determine which fees have not been evaluated and why.
- Describe current and former cost of service methodology used in fee studies and recommend opportunities for improvement.
- Determine whether there is a consistent, identifiable basis for classifying fees.
- Determine which evaluated fees have not been recommended for justified increases.
- Determine whether ongoing measures to evaluate fees are likely to result in consistent, appropriate adjustments.

We found the fourth of these objectives impractical to accomplish in this audit because of the multitude of factors that affect whether a fee increase is "justified." Therefore, we concentrated primarily on the methodologies used to establish and evaluate fees.

The scope of our work was the methodology of the fee changes considered or made as a result of the *Report on Non-Tax Revenue Initiatives* in 2002, as well as the changes made or considered since then, excluding the major enterprise funds—such as the utilities, solid waste, convention center, and aviation—which have specialized and well-established fee processes. At the suggestion of the Budget Office, we concentrated our fieldwork on the April 2004 revenue initiative (which will affect the FY 2005 budget), since it reflects a more mature approach than

that of previous years. Although the implementation of fee changes affects most City departments, the Budget Office has been the locus for controlling and evaluating fees; so the focus of our audit work was the documentation maintained by the Budget Office, supplemented with information from the Health Department and Parks and Recreation Department (PARD), whose fees we examined most closely for specific examples of how fee services were evaluated.

We took the following steps to attain our objectives:

- We researched current literature on cost accounting and fee setting in local government.
- We reviewed the methodology of the PFM revenue initiative in detail.
- We reviewed the fee schedules from budgets for FY 2003 and FY 2004.
- We reviewed the instructions to departments, departmental submissions, and final report of the *April 2004 Revenue Initiative* by the Budget Office.
- We interviewed staff in the Budget Office, Health Department, and PARD to ensure a complete understanding of the analysis performed and the information submitted.
- We reviewed the methodology of the City's overhead cost allocation plan in order to understand the cost accounting resources already available to the City of Austin.

This audit was conducted in accordance with generally accepted government auditing standards. In accordance with 2003 auditing standards, the audit included steps designed to detect instances of fraud and abuse. Any indications of fraud detected would be reported to the City Auditor's Integrity Unit or other appropriate authority in compliance with standards.

AUDIT FINDINGS

The City's services are broad and affect a wide variety of constituencies. The purposes and policy considerations involved in setting fees are therefore complex and intertwined with concerns for social welfare, economic development, effective regulation of businesses, maintenance of infrastructure, and other considerations. In this report, we do not try to dictate value judgments about the level of cost recovery for various services or to advocate a particular cost accounting methodology. There is no single accepted methodology for guiding this process; however, authoritative literature on cost accounting approaches and other considerations in costing of services do provide useful guidelines for setting and evaluating fees.

The literature suggests that the following elements should be addressed in the fee-setting process:

- All fees should be evaluated on a cyclical basis.
- Fees should be usefully categorized based on purpose, characteristics of the constituency, whether the services provided are optional or mandatory, or how the fee levels are set.
- Costs of service should be calculated based on a reasonable system for allocating indirect costs and for identifying direct costs.
- Costs of providing service should be compared to revenues generated by the fee, even if the fee is set on a basis other than cost of service.
- Recovery goals for each fee or group of fees should be set by policy, actual recovery rates should be reported to policy makers, and recovery calculations should be subject to audit.

- A written policy should guide the fee-setting process.

The Budget Office has made significant improvements in the process of setting and evaluating fees over the past three years. However, further improvements are needed to address effectively all of the above elements.

The Budget Office has effected the evaluation of all fees.

With the PFM revenue initiative (which affected the FY 2003 budget), the Budget Office began evaluating fees more comprehensively than had been done before. At that time, some fees had not been evaluated in over ten years, and no formal process ensured that each fee was reviewed routinely. Although the PFM initiative did not review all fees, it was more comprehensive and methodical than previous efforts. In preparing the FY 2004 budget, the Budget Office extended the initiative to fees administered by PARD, which had not been evaluated by PFM.

In preparing the FY 2005 budget, the Budget Office orchestrated a comprehensive review of fees in all departments, using a methodology very similar to that used by PFM. The Budget Office has summarized the results of the initiative as follows:

- Proposals for new fees and increases to existing fees have the potential annual fiscal impact of \$1,128,343.75 beginning fiscal year 2005 for the General Fund.
- Enterprise funds have a potential annual impact of \$351,735 beginning fiscal year 2005.
- The Public Works Transportation Fund and Capital Projects Management Fund have a potential annual fiscal impact of \$318,293.

We have not audited the calculations of these potential impacts, and the impacts can only be realized if the fee changes recommended are adopted by the City Council. However, the summary does seem to be a reasonable estimate of potential impacts given the methodology that we reviewed. This improved process provides assurance that fees in all departments have been carefully considered, provides greater information to policy makers about each fee, and increases revenues from fees significantly if recommended changes are adopted by Council.

The Budget Office has improved the methodology for setting and reviewing fees over the past three years.

The PFM revenue initiative guided some departments in considering new fees for existing services and approached existing fees by looking at potential increases to adjust for inflation since the last fee increase. It also considered changes in fees justified by the department's calculation of cost of service or the "going rate" for similar services in other jurisdictions. Similarly, this year's review, compiled by the Budget Office in a volume titled *Revenue Initiative, April 2004*, was assembled through a process in which the Budget Office developed an in-house model for calculating fee levels if inflation rates are applied to each fee since the last increase. The Budget Office provided these calculations to each department with instructions to prepare fee proposals using either the inflation-adjusted fees or cost of service calculations, or another appropriate justification. (See Appendix B for these instructions.) Each department's submission was then discussed by

representatives of the department and the Budget Office to consider whether the proposals were complete and justified. The final report details the existing fees by department, showing the current and proposed rates, percentage change, and fiscal impact. The volume also shows proposed new fees, proposed rates, and fiscal impact. The narrative included discusses the purpose of the fee, the methodology for calculating the fee change, how the fiscal impact was calculated, and “issues that may affect implementation.” The Budget Office has stated their intent to repeat this process every two years.

This methodology shows that the departments administering fees and the Budget Office are considering increases from several points of view, considering both fiscal impacts and policy considerations, and looking continuously for appropriate opportunities to evaluate fees.

The methodology for setting and evaluating fees requires further improvement.

The PFM revenue initiative and the analyses performed since have all approached fees first from the basis of justifying increases based on inflation since the last increase. The problem with this approach is that it perpetuates any arbitrariness that may already be built in to the fee. The most recent process does provide for considering other approaches; however, the departments are not required to consider, and may not have the expertise or time to consider, evaluating all fees against the cost of providing services. Available literature on costing of government services suggests that the best approach is from a cost of service perspective. In Phoenix, for example, the annual fee review process begins with the preparation of the overhead cost allocation plan, which is then used to determine the full cost of each fee area. This information can then be used to calculate a full cost-recovery rate for comparison to actual rates. In this way, any subsidy of the fee service can be expressed both on a per-unit and total cost basis. The paragraphs below identify areas for further improvement of the methodology for reviewing fees.

The Budget Office has not yet established a consistent, useful system for classifying fees. In this year’s revenue initiative, the Budget Office examined each fee individually to consider any factors that might affect the implementation of changes in the fee. In the case of PARD fees, the department used the opportunity to collapse its fees into fewer categories for more effective administration. On the whole, however, City fees are not classified into a coherent system. The available literature recognizes that fees can be classified on several bases that may be useful. For example, identifying fees as cost-of-service based, market rate, or subsidized could be useful in many cases. Or identifying fees as charges for goods and services, charges for infrastructure maintenance, or regulatory charges might be useful. For example, the ICMA MIS Report “User Fees: Current Practices” distinguishes regulatory fees from charges for goods and services, noting that regulatory fees should normally be set to recover the full cost of providing services, as these are a cost of doing business for the regulated entity. But in Austin, often the full cost is not known or there is no impetus to set the fee at full cost-recovery rates.

In Austin, for example, a December 2000 audit report recommended that food establishment permit fees be designed to recover the full cost of regulating food establishments. Management agreed with this recommendation and Council accepted the report with a recommendation that

they establish cost-recovery fees. However, the current revenue initiative recommends fees estimated to recover only 75% of direct costs. The City's general revenues are therefore subsidizing restaurant operations to the extent of the unrecovered direct cost and the indirect costs. An appropriate classification system would allow Council to distinguish fees by type and set policies appropriate to each fee type, then monitor achievement of its policy objectives.

The City does not set recovery rates based on the purpose, constituencies, and policy concerns related to each fee. Establishing categories would also facilitate setting cost recovery rates for each type of fee. The literature does not advocate setting rates to recover the full cost in every case; to recommend this would usurp the prerogatives of the City Council, which must take into account many policy considerations in addition to cost recovery. However, the literature does support gathering information on costs and setting goals for recovery rates for each fee area so that the extent to which fee services are subsidized is apparent to policy makers and the public. Appendix C includes a generalized example of targets for cost recovery rates.

Fees are not currently evaluated against a rigorous and consistent calculation of costs of service. Authoritative literature stresses the importance of identifying costs for each fee service. This identification includes the allocation of overhead or indirect costs to each cost object or fee service. Fee services are not now subject to complete, defensible cost accounting so that the full cost of providing services is known to management and the Council. The City's existing overhead cost allocation plan is a useful tool in identifying costs, but it is not currently used to allocate costs all the way down to the level of each fee service. In some cases, management may not be able to allocate costs to that level, but in many cases the allocation statistics may be available or easily derived for a more complete and detailed allocation.

The available cost accounting expertise among city employees has not been brought to bear on fee setting. The experts in overhead cost allocation who now prepare the overhead cost allocation plan in the Controller's Office are not involved in aiding departments with identifying costs associated with each fee service. Given the information included in the overhead cost allocation plan, these staff members have significant expertise that could be brought to bear on determining costs of individual fee areas.

Outside expertise may be useful in establishing costs of service. In both PARD and the Health Department, staff members have indicated that cost accounting is not complete for all fee areas. In PARD, for example, some recreation centers have better data than others. PARD has taken the positive step of providing new software to support better cost and participation data, but this software is not yet used by all rec centers and programs. Given the constraints on staff, engaging an outside contractor who performs cost accounting regularly may be useful to allocate all costs to cost objects and to calculate full cost-recovery rates.

The Budget Office has not yet developed a written policy and procedures governing establishing and reviewing fees.

Budget Office staff members have stated their intent to formalize the process that they followed this year in reviewing fees in written procedures and to repeat the process every two years. In

addition to formalizing the existing process, the policy formulated should address the issues identified above and should provide for routine audits of cost accounting data which supports new fees or significant fee changes.

Recommendations

01. In order to study fully the complex issues related to setting fees, the City Manager should appoint a staff committee comprised of representatives of the Budget Office, the Controller's Office, and a sample of operating departments to guide the implementation of the recommendations in this report.

MANAGEMENT RESPONSE: CONCUR

It is a good idea to deploy the operational expertise of the departments outside Budget alongside the budget and accounting expertise in Financial Services. Given the substantial reductions since 2000, making this a priority over other routine tasks will require focused support.

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02. In order to allow for effective administration of the wide variety of fees, the Budget Officer, aided by the committee named above, should develop a useful system of classifying fees based on factors such as constituencies, purpose of the fee, or underlying basis for the fee, such as cost of service, market rates, or infrastructure maintenance.

MANAGEMENT RESPONSE: CONCUR

The Auditor's research is an excellent place to start. The study group, once formed, should first access the Auditor's research on how other cities effectively clarify and catalogue their fees. In addition, Austin's active participation in ICMA means that another network of performance measurement and practice expertise may be available to guide our efforts.

-
03. The City Manager, through the staff committee named above, should develop cost accounting standards for City departments to ensure that each department can reasonably estimate the full cost of providing each fee service on both a total cost and unit cost basis. These standards should take into consideration both direct and indirect cost, including reasonable allocations of citywide and departmental overhead cost to each fee service. The standards should recognize that cost of service calculations should be reasonable, but not so costly to perform that they undercut efficient administration of the fees.

MANAGEMENT RESPONSE: CONCUR

The transition from AFS2 to AFS3 over the next year may mean that the staff with the greatest cost accounting and cost allocation expertise is not available to assist with this project. In fact, temporary staff will have to be deployed to assure that daily routine duties are not neglected. However, once AFS3 is implemented, the staff involved in the implementation will have invaluable insight regarding operational cost accounting standards and how the underlying information is captured in AFS3.

04. The Budget Officer, aided by the committee named above, should evaluate the costs and benefits of using City resources or bringing in outside expertise to identify all cost objects, allocate indirect costs to each object, and calculate full cost-recovery rates for each fee area.

MANAGEMENT RESPONSE: CONCUR

The Budget Office is grateful to the Auditor for recognizing the resource limitations across the City caused by three years of budget reductions, especially in administrative operations. The appointed study group will evaluate the costs of staff time diverted from core budget responsibilities to conduct the necessary analysis as well as the potential benefit of revenue enhancement. This evaluation will be used to determine the true cost-benefit of contracting with an outside consultant.

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05. In order to ensure consistent evaluation of fee levels and structures, the Budget Officer, in consultation with the operating departments, should develop a written policy (or policies) and procedures for ongoing evaluation that includes the following:
- steps in the evaluation cycle,
 - duties of each participant in the process,
 - frequency of evaluation,
 - reference to cost accounting standards,
 - calculation of cost-recovery rates,
 - establishment of cost-recovery targets for each fee,
 - provision for auditing cost estimates and recovery calculations.

MANAGEMENT RESPONSE: CONCUR

Given the level of staff turnover and the complexity and importance of the City's fee structure, written policies and procedures for this biennial effort will be essential to its ongoing effectiveness and improvement. This will be a top priority of the study group to be appointed by the City Manager. The Auditor's list of suggested elements provides a solid outline from which to start.

-
06. To ensure full information to policy makers on the extent to which services are subsidized by general revenues, the Budget Officer should present to Council cost-recovery targets for each fee service and should publish periodically the actual cost-recovery achieved on both a per-unit and total recovery basis for each fee. (See Appendix C for examples.)

MANAGEMENT RESPONSE: CONCUR

Since the Revenue Initiative is a biennial process, the publication and presentation of cost-recovery targets should be incorporated in the biennial publication of the Revenue Initiative Report. Because of Austin's size, complexity, and staff reductions, an periodic publication will allow for a quality report.

**APPENDIX “A”
MANAGEMENT’S RESPONSE**

**Budget Office Response to Office of the City Auditor's Fee Structure Review Report
June 15, 2004**

1. The Budget Office concurs with Recommendation #1. It is a good idea to deploy the operational expertise of the departments outside Budget alongside the budget and accounting expertise in Financial Services. Given the substantial reductions since 2000, making this a priority over other routine tasks will require focused support.
2. The Budget Office concurs with Recommendation #2. The Auditor's research is an excellent place to start. The study group, once formed, should first access the Auditor's research on how other cities effectively clarify and catalogue their fees. In addition, Austin's active participation in ICMA means that another network of performance measurement and practice expertise may be available to guide our efforts.
3. The Budget Office concurs with Recommendation #3. The transition from AFS2 to AFS3 over the next year may mean that the staff with the greatest cost accounting and cost allocation expertise is not available to assist with this project. In fact, temporary staff will have to be deployed to assure that daily routine duties are not neglected. However, once AFS3 is implemented, the staff involved in the implementation will have invaluable insight regarding operational cost accounting standards and how the underlying information is captured in AFS3.
4. The Budget Office concurs with Recommendation #4. The Budget Office is grateful to the Auditor for recognizing the resource limitations across the City caused by three years of budget reductions, especially in administrative operations. The appointed study group will evaluate the costs of staff time diverted from core budget responsibilities to conduct the necessary analysis as well as the potential benefit of revenue enhancement. This evaluation will be used to determine the true cost-benefit of contracting with an outside consultant.
5. The Budget Office concurs with Recommendation #5. Given the level of staff turnover and the complexity and importance of the City's fee structure, written policies and procedures for this biennial effort will be essential to its ongoing effectiveness and improvement. This will be a top priority of the study group to be appointed by the City Manager. The Auditor's list of suggested elements provides a solid outline from which to start.
6. The Budget Office is in concurrence with Recommendation #6. Since the Revenue Initiative is a biennial process, the publication and presentation of cost-recovery targets should be incorporated in the biennial publication of the Revenue Initiative Report. Because of Austin's size, complexity, and staff reductions, a periodic publication will allow for a quality report.

ACTION PLAN
AUDIT: FEE STRUCTURE REVIEW

Rec. #	Recommendation Text	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/Phone Number	Proposed Implementation Date
01	In order to study fully the complex issues related to setting fees, the City Manager should appoint a staff committee comprised of representatives of the Budget Office, the Controller's Office, and a sample of operating departments to guide the implementation of the recommendations in this report.	Deliver a memo to the City Manager identifying the departments and appointees the Budget Office recommends participate in the Study Group.	PLANNED	Sidney Hacker, Deputy Budget Officer 974-2704	January 1, 2005
02	In order to allow for effective administration of the wide variety of fees, the Budget Officer, aided by the committee named above, should develop a useful system of classifying fees based on factors such as constituencies, purpose of the fee, or underlying basis for the fee, such as cost of service, market rates, or infrastructure maintenance.	This process started with the most recent Revenue Initiative. During the biennial fee review, work to create a more complete template for cataloging fees. The template should include those components identified by the Auditor. Direct staff to begin work on a catalogue with the goal of completion by the end of the next biennial review.	UNDERWAY	Kimberly Springer, Budget Analyst 974-2611	January 1, 2006
03	The City Manager, through the staff committee named above, should develop cost accounting standards for City departments to ensure that each	Convene Study Group (as identified in #1 above) to establish guiding principles for review, including revenue	PLANNED	Controller representative appointed to Study Group	March 2005

Rec. #	Recommendation Text	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/Phone Number	Proposed Implementation Date
	<p>department can reasonably estimate the full cost of providing each fee service on both a total cost and unit cost basis. These standards should take into consideration both direct and indirect cost, including reasonable allocations of citywide and departmental overhead cost to each fee service. The standards should recognize that cost of service calculations should be reasonable, but not so costly to perform that they undercut efficient administration of the fees.</p>	<p>thresholds for investing substantial staff time to research and establish cost accounting standards for each fee. Guiding principles should also be used to identify priority fees and revenue and to establish a review cycle to cover all fees.</p>		(AFS3 expert)	
04	<p>The Budget Officer, aided by the committee named above, should evaluate the costs and benefits of using City resources or bringing in outside expertise to identify all cost objects, allocate indirect costs to each object, and calculate full cost-recovery rates for each fee area.</p>	<p>The Study Group, once guiding principles are established and preliminary research is completed, will determine if additional resources are necessary and cost-beneficial to deploy.</p>	<p>UNDERWAY (FY04 fee revenue has been calculated)</p>	<p>Kim Springer, Budget Analyst 974-2611</p>	<p>March 2006</p>
05	<p>In order to ensure consistent evaluation of fee levels and structures, the Budget Officer, in consultation with the operating departments, should develop a written policy (or policies) and procedures for ongoing evaluation that includes the following:</p> <ul style="list-style-type: none"> • steps in the evaluation cycle, 	<p>The Study Group will translate its guiding principles into policies to be shared with the departments to address critical components of establishing fee structures and levels.</p>	<p>UNDERWAY (Efforts will building on the 2003-2004 Revenue Initiative)</p>	<p>Kim Springer, Budget Analyst 974-2611</p>	<p>October 2005</p>

Rec. #	Recommendation Text	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/Phone Number	Proposed Implementation Date
	<ul style="list-style-type: none"> • duties of each participant in the process, • frequency of evaluation, • reference to cost accounting standards, • calculation of cost-recovery rates, • establishment of cost-recovery targets for each fee, • provision for auditing cost estimates and recovery calculations. 				
06	<p>To ensure full information to policy makers on the extent to which services are subsidized by general revenues, the Budget Officer should present to Council cost-recovery targets for each fee service and should publish periodically the actual cost-recovery achieved on both a per-unit and total recovery basis for each fee.</p>	<p>The Study Group will move forward with this goal in mind. Establishing the fee level for full cost recovery requires many steps. Given the complexity, blending, and sheer number of fees, activities, organizations, and indirect services, this will be an iterative process. Since the Revenue Initiative will be a biennial process, certain fees will be targeted each biennium, so that in the course of a full cycle, all fees will be presented.</p>	PLANNED	Kim Springer, Budget Analyst 974-2611	September 2010 (First fees by July 2006)

APPENDIX “B”
BUDGET OFFICE REVENUE INITIATIVE
INSTRUCTIONS TO DEPARTMENTS

FY2005 Revenue Initiative Proposal Narrative Components

Initiative Review provided by Budget Office:

- Revenue Initiative Purpose
- Estimated Fiscal Impact of new fees and fee adjustments (totals by dept. & overall)
- Generalities of types of fee analysis
 - Inflation & Cost-of-Service
- Methodology and justifications for analysis
 - Inflation & Cost-of-Service

Department Proposal Reports:

- Overall methodology used by department to determine how the current fees would be adjusted (by inflation or cost-of-service) or why certain fees were not adjusted

Specific requirements according to fee

- All fees
 - Description of fee plus, whom the fee is for or whom it affects. (i.e. children, adults, elderly, etc.)
 - Issues that might affect the implementation of the fee
 - Ordinance changes, Legislation
 - Operational needs
 - Outreach
 - Net impact of these issues after fee implementation
 - Possible interaction with other fees from the City, County, School Districts, etc.)
 - Potential fiscal impact
- Fees adjusted by inflation
 - General explanation of application of inflation to fee rate
 - To make this explanation less daunting, fees that are quite similar can be placed in categories and an explanation can then be provided for the category of fees as opposed to each individual fee (Ex. EMS Medications as opposed to listing each medication)
- Fees adjusted by cost-of-service
 - Explanation of the process used to determine the proposed rate
 - To make this explanation less daunting, fees that are quite similar can be placed in categories and an explanation can then be provided for the category of fees as opposed to each individual fee (Ex. EMS Medications as opposed to listing each medication)
- New fees
 - Description of fee and its purpose
 - How rate was determined
 - Comparable cities with a similar or same fee already in place

Department:
Responsible Manager: (Financial Manager)

Fee Name

Description

Description of fee plus, whom the fee is for or whom it affects. (i.e. children, adults, elderly, etc.)

Methodology

(Choose option A, B, or C accordingly for the particular fee or group of fees being described.)

A. Cost of Service

Explanation of the process used to determine the proposed rate

- Fees can be grouped by similarity and an explanation can then be provided for the groups as opposed to each individual fee

B. Rate if Adjusted to Reflect Inflation

General explanation of application of inflation to fee rate

- Fees can be grouped by similarity and an explanation can then be provided for the groups as opposed to each individual fee

C. New Fee

Description of fee and its purpose

How rate was determined

Comparable cities with a similar or same fee already in place

Potential Fiscal Impact

Issues that May Affect Implementation

Ordinance changes, Legislation

Operational needs

Outreach

Net impact of above listed issues after fee implementation

Possible interaction with other fees from the City, County, School Districts, etc.)

Source: City of Austin Budget Office

Note: The Budget Office also supplied a fee proposal spreadsheet template with fields for FY 2004 approved rate, date of last fee change, amount of last change, suggested adjustment, selected adjustment method, inflation rate, suggested FY 2005 rate, suggested adjustment %, FY 2005 estimated revenues, and potential fiscal impact.

APPENDIX “C”
EXAMPLES OF FEE REVIEW POLICY DOCUMENTS

Appendix C

Examples of Fee Review Policy Documents

This appendix includes several examples from Phoenix, Arizona, concerning their fee setting process. Several are taken from a report issued by ICMA in 1992, and show the annual review cycle for user fees, the operating procedures for implementing and updating user fees, an example of the memo from the City Auditor to the City Manager regarding the annual user fee review, and a brief example of the table of recovery targets and estimates. These are not necessarily appropriate for Austin in all respects and should be viewed as general examples, not recommendations. For example, auditing standards have changed, so some of the duties performed by the City Auditor in Phoenix in 1992 would no longer be appropriate and should be performed by management. Also included is a more recent example of a memo to an operating department regarding the annual user fee review, along with an example of the analysis sheet used for each fee service.

An Annual Review for User Fees

Phoenix, Arizona (853,000), reviews its user fees annually. Each year the city auditor, the operating departments, the office of management and budget, the city manager, and elected officials cooperate in reviewing some 175 user fees, which together recover approximately \$178

million for the city. The calendar for the annual user fee review is shown below.

A description of the procedures to be used in implementing new fees and reviewing existing fees, a summary of 1992-1993 user fees by department and a sample of the city auditor's report on fees that are not recovering all costs can be found in Appendix B.

MONTH	EVENT	RESPONSIBLE PARTY
July	Approved budget is issued. Work begins on city-wide cost allocation plan for following year. Time records are maintained (either for all time or on a sample basis).	Management and budget City auditor Operating departments
October	City-wide cost allocation plan is completed for following year.	City auditor
November	Initial revenue and expenditure budgets are prepared for following year. Department indirect cost and accumulation of depreciation and debt service costs are compiled.	Operating departments City auditor
December	Proposed revenue and expenditure budgets for following year are reviewed. User fee analysis forms are sent to departments along with instructions for their completion and appropriate indirect cost rates. Time records/samples are summarized and used in developing costs.	Management and budget City auditor Operating departments
January	Projected recovery rates are calculated for following year Completed user fee analysis forms are submitted to the city auditor for review. User fee analysis forms are reviewed for consistency with established cost models and city budgeted revenue and expenditure estimates.	Operating departments Operating departments City auditor
February	Reviewed cost recovery rates are reported to the city manager along with established policy rates. Fee changes are recommended to management and budget office. Boards and commissions affected by fee changes are contacted.	City auditor Operating departments Operating departments
March	Mayor and council are notified of proposed fee changes	Management and budget
April-June	City budget for following year is finalized, including specific fee changes.	Management and budget, mayor and council, city manager

Source: ICMA, MIS Report, "User Fees: Current Practice." Phoenix's calendar for user fee review was first published in "Annual User Fee Review Program of the City of Phoenix, Arizona," by James A. Flanagan and Susan J. Perkins, in Government Finance Review, July 1987.

**Operating Procedures for Implementing and Updating User Fees–
Phoenix, Arizona (1992-93)**

This procedure provides a process for the timely review and implementation of user fees.

Responsibility	Action
Implementation of New Fees	
Operating Departments	<ol style="list-style-type: none"> 1. Identify special service appropriate for user fee. 2. Estimate the full cost of the service. Include costs described in step 5 if the annual process (below). May request assistance from City auditor. 3. Propose user fee amounts and policy recovery rates at a City Council Policy Session. 4. Notify City Auditor and Management and Budget of new fees approved by Council.
City Auditor	<ol style="list-style-type: none"> 5. Review costs associated with the new fee. 6. Include the fee in the annual user fee review.
Management and Budget	<ol style="list-style-type: none"> 7. Include the fee in the revenue estimation process.
Annual User Fee Review	
Operating Departments	<ol style="list-style-type: none"> 1. Throughout the year, maintain appropriate records to substantiate Costs of providing services, including personal services, supplies Contracts, etc. Where timekeeping records are to be maintained on a Sample or continuous basis to substantiate a fee, account for a Complete workday.
City Auditor Department	<ol style="list-style-type: none"> 2. Prior to the base budget request development process (i.e., 3+9, 4+8, etc.), develop indirect cost rates based upon current year costs and significant anticipated changes. Indirect costs are general administrative costs which support activity (i.e., accounting and purchasing). 3. Compile depreciation and debt service costs applicable to user fees. 4. Send user fee analysis forms to operating departments along with instructions and appropriate indirect costs, depreciation and debt service costs.
Operating Departments	<ol style="list-style-type: none"> 5. During base budget expenditure request preparation (i.e., 3+9, 4+8), Review services funded by user fees to identify the full costs of Providing the service. Include the following costs: <ol style="list-style-type: none"> a. Personal services (salaries and fringes) b. Contractual services (including work order services) c. Commodities d. Depreciation on assets purchased with operating funds e. Lease purchase payments (principle and interest) f. Debt service payments (principle and interests) g. In lieu taxes h. Costs from other City departments which are not included in (b) above. i. Division, department and citywide indirect costs. <p>Include both current year costs and significant anticipated changes for the coming year in all calculations. If no other guideline is provided, assume costs increase at the rate of inflation contained in the budget instructions.</p> 6. During the 3+9 revenue estimation process, identify revenues associated with user fees. 7. During the base budget request development process, identify volume indicators for fee related activities. Cost and revenue estimates need to correspond with activity levels submitted. Use current year activity levels and adjust for significant anticipated changes. Activity levels, once chosen, will be used consistently so that the information is useful. 8. Using cost and revenue estimates, calculate a cost recovery rate and compare this to the City Council policy recovery rate.

City Auditor Department	<ul style="list-style-type: none"> 9. Where estimated recovery rates are lower than policy, begin to identify cost reductions and /or revenue increases that are possible. 10. Return completed user fee analysis forms to the City Auditor for review. 11. Audit cost recovery rates submitted by departments. Notify departments of any changes that need to be made to their cost calculations. 12. Based on audit results, prepare a letter to the City Manager presenting projected cost recovery rates and identifying areas where projected cost recovery is lower than the City Council recovery rate. Copy Management and Budget
Management and Budget	<ul style="list-style-type: none"> 13. Review audited recovery rates that are projected to recover less than the Council policy. Coordinate cost reductions and/or revenue increases with affected operating departments. 14. Review department supplemental requests and based changes for impact on recovery rates.
Operating Departments	<ul style="list-style-type: none"> 15. Contact and discuss with Boards, Commissions or organized citizen groups fee increase proposals. 16. Propose cost reductions or fee increases for Management and Budget presentations of the preliminary budget.
Management and Budget	<ul style="list-style-type: none"> 17. Present preliminary budget detailing proposed fee adjustments for City Manager and City Council review. 18. Coordinate submittal for Council approval of RCA's requesting user fee adjustments
<p><i>Source: ICMA, MIS Report, "User Fees: Current Practice."</i></p>	

**Memo from the City Auditor to the City Manager
Regarding the Annual User Fee Review**

The attached schedules present the results of our annual user fee review for fiscal year 1992-1993.

The purpose of the annual user fee review is to compare projected recovery rates to the recovery rates policy set by the City Council. The projected recovery rate is based on next year's projected costs prior to rate increases or cost reductions. The differences between projected recovery and policy recovery for fiscal year 1992-1993 is an underrecovery of \$3.8 million for general and special revenue funds and \$34.7 million for enterprise funds. This information is provided to the Budget and Research Departments for its use in preparing the budget.

Schedule A presents recovery rates by department as well as dollar differences between projected recovery and policy recovery for those fees recovering less than Council policy. Schedule B provides additional information on fees expected to recover less than the policy recovery rate.

Refuse collection and landfill fee cost recovery is uncertain. Several new costs are entering the City budget next year for the transfer station, the long haul to the landfill and recycling. Overall, it appears that the refuse fund will recover approximately 80 percent of its costs. Again, this calculation is prior to fee increase or cost reduction consideration.

The golf fee is expected to recover 88 percent of costs. A fee increase is not currently proposed by the Parks, Recreation and Library Department. Fees have not been increased in four years. We contacted several public and private courses in the valley and found our fees to be less than these courses. A \$2 increase across the board would keep us in the low end of the market and generate \$1 million per year in cost recovery.

Development service cost recovery is projected to be 95 percent, a substantial improvement over the last two years. Current year (FY 1991-92) revenues show increases over last year (FY 1990-91).

Source: ICMA, MIS Report, "User Fees: Current Practice."

Schedule A: Annual User Fee Review – Summary by Department				
Fee	Recovery Policy	Recovery Projection	Underrecovery General Fund	Underrecovery Enterprise Fund
Development Services (overall 95%)				
Building Safety				
Permits	100%	102%		
Plan Review	100%	121%		
Infrastructure				
Inspections	100%	121%		
Plan Review	100%	41%	620,000	
Signs	100%	85%	130,000	
Site Plan (DCO)	100%	62%	425,000	
Municipal Utilities				
Plan Review	100%	40%		285,000
Finance				
Applications for:				
Privilege License	100%	135%		
Liquor License	100%	79%	60,000	
Business License	100%	93%	8,000	
Bingo License	Set by state	11%	3,000	
Fire				
Emergency Transportation	Set by state	100%		
Fire Prevention Services	88%	62%	300,000	
Fire Watch*	100%	83%	2,000	
Parks, Recreation and Library				
Golf	100%	88%		580,000
Swimming Pools	19%	10%	400,000	
Class	100%	59%	200,000	
Ball field use	100%	47%	320,000	
Tennis Center	100%	87%	320,000	
Rec. Leader/Super	100%	100%		
Alcohol Beverage Permits	100%	227%		
Planning				
Zoning Admin	100%	53%	570,000	
<i>Source: ICMA, MIS Report, "User Fees: Current Practice."</i>				

Example Memo to Operating Department Regarding Annual User Fee Review

L.B. Scacewater
Acting Parks & Recreation Library Director

December 17, 2002

Bill Greene
Deputy City Auditor

ANNUAL USER FEE REVIEW

Each year our department is responsible for reviewing user fees across the City. We are ready to start this year's review. We would very much appreciate it if you would complete and return the attached user fee analysis forms (Schedule 1-7) by January 17, 2002, to meet the City Manager's and City Council review dates for the budget process.

In addition to revenue and cost information submitted, please provide supplemental explanations for all fees projected to recover less than 100%. Following are some pointers to keep in mind as your team projects user fees and completes the attached forms:

- Projected revenues and costs are based on Fiscal Year (FY) 2002-03 budgetary estimates (4 + 8 estimates for revenues and 3 + 9 estimates for costs).
- The key information on the form is the projected recovery rate. As outlined by A.R. 3.16, departments need to compare the projected recovery rates to City Council policy rates and propose cost reductions or fee increases as needed. Proposed fee adjustments also need to be discussed with customers and stakeholders.
- The form requests information on actual and projected activity levels associated with user fee revenues. This information is used to develop unit cost information and shows changes in productivity. We have included activity levels used last year. If you are aware of better measures of activity levels, please feel free to use those.

As we conduct this review, we will make your staff aware of any proposed adjustments to projected recovery rates.

Thank you again for your help with the user fee review process. We look forward to working with you and your staff this year. If you have any questions, please call Tracy Reber at 534-0219.

BG/TR

Attachments

cc: Chris Curcio
Jerry Fife

Source: Phoenix City Auditor

SCHEDULE 1
CITY OF PHOENIX
USER FEE ANALYSIS
PARKS AND RECREATION

GREEN FEES

Cost Basis:

Total Cost

FY 2003-04 PROJECTED RECOVERY RATE

Revenue:		\$	
Costs:			
Personal Services			
Contractual Services			
Commodities			
Depreciation			
Indirect Costs ⁽¹⁾			
Other Costs			
Total Costs:		\$	
Projected Recovery Rate:			%

⁽¹⁾

Central Services	\$		(FY 03/04)
Department	\$		(FY 03/04)
Total Indirect Cost	\$		

	FY 2000-01 Actual	FY 2001-02 Actual	FY 2002-03 Estimate	FY 2003-04 Projection
PRODUCTIVITY				
# of Rounds	448,928			
Average Cost Per Round	\$19.71			
Resident Winter	\$19.00			
Resident Summer	\$11.00			
Senior Winter	\$12.00			
Senior Summer	\$9.00			

Prepared by: _____ Ext: _____ Date: _____

Source: Phoenix City Auditor