



**Meeting Date:** May 1, 2017

**Report No.** CC-17-69

**Agenda Item No.** 8d

**Purpose:** Cost of Services Study Results for Development Services Department

**Budget Impact:** Financial review of the Development Services Department revealed that the current fee structure is only recovering approximately 23% of the cost to operate the department. The costs that are not recovered by fees must be funded by other general fund revenue sources such as sales tax revenues. Adoption of a fee schedule to increase the percentage of cost recovery will reduce the burden on other general fund revenue sources.

**Prior Council Action or Part of an Approved Project:** No

**Related Items:** None

**Alternatives:** The following alternatives are available to the City Council:

1. Approve a resolution establishing a fee schedule to recover 75% of the cost of providing development services. The proposed implementation can occur in a single or multiple steps.
2. Approve a resolution establishing a fee schedule to recover 100% of the cost of providing development services. The proposed implementation can occur in a single or multiple steps.
3. Do not approve a new fee schedule for development services. Existing fees will remain.

**Recommendation:** Land Development Ad Hoc Committee and staff recommend that the Council approve the Resolution establishing a fee schedule to recover 75% of the cost of providing development services with a 3 step implementation and an automatic escalator with the first step occurring July 1, 2017.

**Prepared by:** Paula J. Dennison, Development Services

**Reviewed by:** Dan Blankenship, Deputy City Manager

**Reviewed by:** Melissa Reames, CFO

**Submitted by:** Norman McNickle, City Manager

**Attachments:** Cost recovery methodology guide (Pyramid)  
Cost of Service and Revenue Summary  
Recommended Fee Schedule (75% recovery)

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**Background Information:** In the fall of 2016, City Council asked that a Cost of Service Study be performed for the Development Services Department. Finance worked with development services to gather information needed for the analysis.

From the data collected, the cost of service was calculated utilizing a 3-year average. The annual (3-year average) cost of operating the development services department is \$1,201,323 and the annual (3-year average) revenues are \$268,085. On an annual basis, the difference between the cost of service and revenue is a \$933,238 deficit.

Following the completion of the cost of service study, a fee structure to recover the cost the service was developed. The development of the fee structure included:

- Addition of fees for services in which no fee currently exists.
- Adjustment of existing fees to cover the costs.

Prior to developing the fee structure, the methodology of recovery was discussed, specifically the percentage of recovery. Two levels of recovery were considered: 100% recovery and 75% recovery.

At the conclusion of the 5-month analysis, the Land Development Ad Hoc Committee met to evaluate the study, determine the appropriate level of cost recovery, and finalize a fee structure with an implementation schedule. Accompanying this report is a Resolution establishing a fee structure to be implemented in 3 steps, with the first step effective July 1, 2017, the second step effective July 1, 2018 and the third step effective July 1, 2019. Upon full implementation, the proposed fee schedule should recover approximately 75% of the cost of service for the development services department. The Resolution also includes an annual escalator that will apply after full implementation of the proposed fee schedule. The first annual escalator will be effective July 1, 2020. The escalator is the percentage change in the CPI for the previous calendar year or 3%, whichever is less and is designed to keep up with rising costs on an annual basis.