



USER FEE STUDY – CITY OF VALLEJO

Code Enforcement Department

Final Report
September 2024





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SECTION 1

Executive Summary



SECTION I

Executive Summary



Introduction

MGT Consulting Group (MGT) is pleased to present the City of Vallejo with this summary of findings for the recently completed Code Enforcement department user fee study.

MGT analyzed Code Enforcement department fees in 2017. In late 2023, the City contracted with MGT to perform a user fee study update for the Code Enforcement department using fiscal year 2023/2024 budgeted figures, staffing and operational information. The current City fees represent the fees being charged at the beginning of this study.

This report is the culmination of an extensive study conducted by MGT in collaboration with Code Enforcement staff. MGT would like to take this opportunity to gratefully acknowledge all staff who participated on this project for their efforts and coordination.

Study Scope and Objectives

This study included a review of fee-for-service activities within the following areas:

❖ Code Enforcement

The study was performed under the general direction of the Code Enforcement department. The primary goals of the study were to:

- Develop a catalog of fees
- Define what it costs the department to provide various fee-related services
- Compare full costs against current fee
- Survey what regional cities charge for similar services
- Identify additional revenue potential
- Provide recommendations

The information summarized in this report addresses each of these issues and provides the City with the tools necessary to make informed decisions about any proposed fee adjustments.

SECTION I

Executive Summary



Study Findings

The study's primary objective is to provide the City's decision-makers with the basic data needed to make informed pricing decisions. This report details the full cost of services and presents recommended fee adjustments and their fiscal impact. Recommendations are based on careful consideration of the results of the cost analysis, industry best practices and market comparisons.

The exhibit below on the following page displays the average cost recovery rates and FY 2023/2024 budgeted revenues of the Code Enforcement department into the following categories:

Department	Current			Recommended	
	(A) Full Cost User Fee Services	(B) FY2023/2024 Estimated Revenue	(C) Current Subsidy	(D) Cost Recovery Policy	(E) Increased Revenue
Code Enforcement	\$ 784,730	\$ 245,921 31%	\$ 538,809 69%	\$ 786,704 100%	\$ 540,783
Totals:	\$ 784,730	\$ 245,921 31%	\$ 538,809 69%	\$ 786,704 100%	\$ 540,783

Column A, User Fee Costs – \$784,730 of the department’s costs are related to user fee services. It is this \$784,730 that is the focus of this study and represents the total potential for user fee-related revenues for the City.

Column B, Current Revenues – Based on current individual fee levels, the department generates fee-related revenues of \$245,921 and is experiencing an 31% overall cost recovery level. Current cost recovery levels for the departments range from 63% to 190%.

Column C, Current Subsidy – Current fee revenues recover 31% of full cost, leaving 69%, or \$538,809, to be funded by other funding sources. This \$538,809 represents an opportunity for the City to adjust fees and revenues within the department.

Column D, Recommended Recovery – Adjusting fees to the proposed cost recovery, would balance the specified fee revenue to \$786,704. This would set the overall cost recovery level at 100%.

Column E, Increased Revenue – \$786,704 in potential revenue could be generated. This would represent a \$540,783 increase in the revenue currently being collected for these activities by the department on an annualized basis.

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Executive Summary



Methodology

MGT's standard approach for analyzing the cost of providing fee-related services is commonly referred to as a "bottom-up" approach. The bottom-up approach was used to analyze all of the Department's fees for service. A general description of the bottom-up approach is as follows:

1. Identify all direct staff time spent on the fee related activity or service

MGT conducted a series of meetings to identify work directly in support of fee related services. Direct staff costs are incurred by employees who are "on the front line" and most visible to the customers. Once all direct staff were identified, subject matter experts estimated how much time those employees spend, on average, performing each particular fee service.

Developing time estimates for fee related services can be challenging and staff should be commended for the time and effort they put into this. Although MGT provided direction with templates and other tools to assist them in developing average or "typical" time estimates, these calculations were necessarily developed by the subject matter experts within each fee area.

2. Calculate direct cost of the staff time for each fee using productive hourly rates

"Productive hours" means the time staff are in their office or in the field. A full-time City employee typically has 2,080 paid hours per year (40 hours x 52 weeks). However, cost studies reduce this number to account for non-productive hours (sick leave, vacation, holidays, training days, meetings, etc.). MGT calculates the productive hourly rate for each staff classification by dividing annual salary and benefits by annual productive hour figures. The average productive hours for the City's staff providing services ranged was 1,620 hours per year.

3. Determine indirect or "overhead" costs

Generally, there are two types of indirect costs: department (or division)-specific and citywide overhead. These indirect costs are allocated across user fee services in order to capture the full cost of providing the service. If a department performs non-fee related services, a commensurate amount of indirect cost is segregated and not allocated to the fee related services.

Departmental overhead costs – these costs include managers, supervisors, and support staff as well as other operational costs, such as materials and supplies that are incurred for a common purpose and not readily assigned to a particular service or program.

Centralized overhead costs – each department that charges fees receive support from central departments whose main function is to keep the City running. An example of a central service

SECTION I

Executive Summary



Methodology Continued...

department is Human Resources. These costs are distributed to each receiving department through the cost allocation plan.

4. Compare total costs to the current fee schedule

Once all direct and indirect costs are calculated, MGT compared the total cost for each fee-related service to the fee currently charged to the public. In most cases we found the total cost of providing a service exceeded the fee charged. In these instances, the fee can be increased to recover these subsidies, up to the maximum allowed fee. However, there were some services for which the total calculated cost was less than the fee charged. Those fees are fines and are exempt from Prop 26 State law.

5. Costs and revenues are annualized by incorporating annual volume figures

Up to this point we have calculated fee costs and revenues on a per-unit basis. By incorporating annual volume figures into the analysis, we extrapolate the per-unit results into annual cost and annual revenue information. This annualization of results gives management an estimate of the fiscal impact of proposed fee adjustments.

Because annual volume will vary from one year to the next, these figures are estimates only. Actual revenue will depend on future demand level and collection rates.

6. Recommend fee adjustments

MGT provides fee adjustment recommendations based on full cost information, staff recommendations and industry best practices. Of course, MGT's recommendations are advisory in nature only, ultimately the Board must decide what fee levels are appropriate.

Legal, Economic, & Policy Considerations

Calculating the true cost of providing City services is a critical step in the process of establishing user fees and corresponding cost recovery levels. Although it is a principal factor, other factors must also be given consideration. City decision-makers must also consider the effects that establishing fees for services will have on the individuals using those services, as well as the community.

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Executive Summary



Legal, Economic, & Policy Considerations

The following legal, economic and policy issues help illustrate these considerations.

- **Legal restrictions** – In California user fees are limited to the "estimated reasonable cost of providing a service" by Government Code section 66014(a) and other supplementary legislation. Proposition 26 was approved by California voter in November of 2010 and clarified which charges are considered user fees and which are considered taxes. The significance of this distinction is that user fees may be raised by Council action up to the limit of actual cost, whereas taxes may not be increased without a majority vote of the public. None of the fee adjustments recommended by MGT are considered taxes per Proposition 26 guidelines. It should be noted that fees charged as a fine/penalty are exempt from Proposition 26.
- **Economic barriers** - It may be a desired policy to establish fees at a level that permits lower income groups to use services that they might not otherwise be able to afford.
- **Community benefit** - If a user fee service benefits the community as a whole to some extent, it is appropriate to subsidize a portion of the fee.
- **Private benefit** - If a user fee primarily benefits the fee payer, the fee is typically set at, or close to, 100% full cost recovery.
- **Service driver** - In conjunction with the third point above, the issue of who is the service recipient versus the service driver should also be considered.
- **Managing demand** - Elasticity of demand is a factor in pricing certain City services; increasing the price of some services results in a reduction of demand for those services, and vice versa.
- **Competition** - Certain services, such as park usage or facility rentals, may be provided by neighboring communities or the private sector, and therefore demand for these services can be highly dependent on what else may be available at lower prices. Furthermore, if the City's fees are too low, demand enjoyed by private-sector competitors could be adversely affected.
- **Incentives** - Fees can be set low to encourage participation in a service.
- **Disincentives** - Penalties can be instituted to discourage undesirable behavior.

SECTION 2

Analysis Highlights



SECTION 2

Analysis Highlights



Below is a brief discussion of findings the department's analysis. Please see the user fee summary sheets in **Section 3** of this report for details on each fee calculation and cost analysis.

- ✓ **Code Enforcement** – MGT worked with Code Enforcement staff to revised fees into an industry standard best practices format. The proposed fee schedule streamlines fee categories. Several new fees were added. All fees are recommended at full cost recovery rates.
- ✓ **Fines/Penalties**– The department currently has four administrative citation fees. Staff recommends keeping those fees at the same fee amount.
- ✓ **New Fees**– The department recommends adding the following fees:
 - Notice of Violation or Administrative Citation Posting Fee
 - Demand Request Processing Fee
 - Lien Release Request Processing Fee
 - Time Extension Request - Good Faith Deposit (any extension more than 60 days)
 - Vacant Real Property Renewal Fee (75% of regular fee)

Staff is already providing these services but did not previously have a way to recover their cost. Establishing these new fees will help the department recover cost for these activities

SECTION 2

Analysis Highlights



Recommendations Going Forward:

MGT recommends that the City build on its investment in this cost-of-service analysis by continuing to analyze its fees and charges whether this is done by staff or outside consultants. Once the commitment is made to understand the full cost of providing services, it is important to review and update the analysis in order to keep pace with changes in service delivery, staffing changes, and demand levels.

Most of our agencies ask us at the conclusion of the study: how often should this type of study be undertaken? Our advice is to perform this detailed analysis at least every three but not more than five years, with minor adjustments in the non-study years (to keep pace with economic impacts). MGT recommends the City apply an inflation adjustment to fees annually, based CPI from All Urban Consumers for the San Francisco Bay area to keep pace with inflation. The industry best practice is to apply this index once per year as part of the City's annual budget process. This is particularly helpful once an agency has chosen to adopt a cost recovery policy – whether 100% of cost or something less – in order to keep fees at the desired level.

SECTION 3

User Fee Summary





Code Enforcement

Agency: Y of Vallejo
 Department: de Enforcement
 Fiscal Year: 23-2024

	Current					Recommendations					
	Annual Volume	Fee Description	Per Unit Full Cost	Current Recovery	Annual Revenue	Annual Subsidy	Recovery Level	Per Unit Fee @ Policy Level	Annual Revenue	Annual Increased Revenue	Recommended Subsidy
1 Warrant Processing Fee	6	Flat	\$ 1,476.77	81%	\$ 10,886	\$ 8,861	100%	\$ 1,814.35	\$ 10,886	\$ 2,025	\$ -
2 Warrant Lien Process Admin. Charge	6	Flat	\$ 494.38	126%	\$ 2,363	\$ 2,966	100%	\$ 393.86	\$ 2,363	\$ (603)	\$ -
3 Notice of Violations Appeals Fees (Non-Refundable)	8	Flat	\$ 509.23	18%	\$ 22,120	\$ 4,074	100%	\$ 2,764.99	\$ 22,120	\$ 18,046	\$ -
4 Administrative Citation Fine Per Code Section Violated - 1st Citation	91	Per Violation	\$ 283.26	63%	\$ 40,668	\$ 25,777	63%	\$ 283.26	\$ 25,777	\$ -	\$ 14,892
5 Administrative Citation Fine Per Code Section Violated - 2nd Citation	24	Per Violation	\$ 566.52	127%	\$ 10,726	\$ 13,596	127%	\$ 566.52	\$ 13,596	\$ (2,871)	\$ (2,871)
6 Administrative Citation Fine Per Code Section Violated - 3rd and All Subsequent Citations	20	Per Violation	\$ 850.84	190%	\$ 8,938	\$ 17,017	190%	\$ 850.84	\$ 17,017	\$ (8,079)	\$ (8,079)
7 Administrative Citation Lien Processing and Late Payment Penalty	61	Per Citation	\$ 503.93	124%	\$ 24,823	\$ 30,740	124%	\$ 503.93	\$ 30,740	\$ (5,916)	\$ (5,916)
8 Notice of Violation Admin. Charge	183	Flat	\$ 409.51	92%	\$ 81,783	\$ 74,940	100%	\$ 446.90	\$ 81,783	\$ 6,843	\$ -
9 Vacant Real Property Annual Registration Fee	150	Flat	\$ 453.00	31%	\$ 217,317	\$ 67,950	100%	\$ 1,448.78	\$ 217,317	\$ 149,367	\$ -
10 Notice of Violation or Administrative Citation Posting Fee	400	New Fee	\$ -	0%	\$ 32,247	\$ -	100%	\$ 80.62	\$ 32,247	\$ 32,247	\$ -
11 Demand Request Processing Fee	150	New Fee	\$ -	0%	\$ 31,814	\$ -	100%	\$ 212.09	\$ 31,814	\$ 31,814	\$ -
12 Lien Release Request Processing Fee	400	New Fee	\$ -	0%	\$ 280,448	\$ -	100%	\$ 701.12	\$ 280,448	\$ 280,448	\$ -
13 Time Extension Request - Good Faith Deposit (any extension more than 60 days)	200	New Fee	\$ -	0%	\$ 20,596	\$ -	100%	\$ 102.98	\$ 20,596	\$ 20,596	\$ -
14 Vacant Real Property Renewal Fee (75% of regular fee)	-	New Fee	\$ -	0%	\$ -	\$ -	100%	75% of regular fee	\$ -	\$ -	\$ -
15 Tobacco Retail License	-	New Fee	\$ -	0%	\$ -	\$ -	100%	\$ -	\$ -	\$ -	\$ -
Total User Fees					\$ 784,730	\$ 245,921			\$ 786,704	\$ 540,783	\$ -1,974
% of Full Cost					31%	69%		100%	220%	0%	0%

Footnotes

- 1 Fees #4-7 are exempt from Prop 26.
- 2 Fee #11 is a fee for requesting a payment demand, also known as demand payoff.
- 3 Fee #13 is a fee for requesting for a time extension on a case.

SECTION 4

Fee Schedule Comparison Analysis



SECTION 4

Fee Schedule Comparison Analysis

A component of the Fee Analysis scope calls for a comparison of Vallejo's fees against those charged by similar agencies. For Code Enforcement fees, with help and recommendations from staff, MGT compared fee amounts and structure to the following agencies: Santa Rosa, San Pablo, Concord, Fairfield, Richmond & Vacaville.

The purpose of this component is to give Vallejo an understanding of fee structures typical in the region. This analysis gives Vallejo management an opportunity to review fee structures and fee amounts employed by other agencies and emulate any as appropriate.

MGT understands the value of this information, but believes it is important to provide the following context: 1) unless MGT has performed a similar study for the surrounding jurisdiction, we do not know what cost components are included in the fees, 2) a simple comparison of fees does not provide the City with the knowledge of whether the neighboring city has a policy of full cost recovery, or something less than 100%, 3) service levels may vary widely from jurisdiction to jurisdiction, and 4) it can be difficult to ensure an exact match up of services when each agency describes a service in its own unique manner.

The following pages display the comparison analysis results.

City of Vallejo - Peer Comparison Study

		Peer Agencies						
Vallejo Code Enforcement	Current Fee	Proposed Fee	Santa Rosa	Concord	Fairfield	San Pablo	Richmond	Vacaville
Warrant Processing Fee	\$1,476.77	\$1,814.35	N/A	Actual Cost - \$148/hr	N/A	Abatement of Public Nuisance Basic Each \$321.00 Substandard Each \$1,423.00 Inspection Warrant Each \$250.00	Inspection Warrant – \$1,132 Abatement Warrant – \$1,330 Abatement Warrant – \$1,330 Notice of Violation Appeal (Vehicle Abatement) – \$0 Abatement Administrative – \$750 Lien and Special assessments – \$2,659 Late fees are 10 % of charge	Actual Cost
Warrant Lien Process Admin. Charge	\$494.38	\$393.86	N/A	\$465	N/A			Actual Cost
Notice of Violations Appeals Fees	\$509.23	\$2,764.99	Appeal to Board of Building Regulations Appeals: \$811.98. If appeal is through Administrative Hearing Process: Hearing Officer requests cost recovery	Actual Cost - \$148/hr	N/A		Abatement contract cost + actual City costs \$519.00 + actual cost of Hearing Examiner divided equally between City and appellant.	
Administrative Citation Fine Per Code Section Violated - 1st Citation	\$283.26	\$283.26	\$130	\$316	\$119	\$100	\$250	\$100
Administrative Citation Fine Per Code Section Violated - 2nd Citation	\$566.52	\$566.52	\$700	\$716	\$239	\$200	\$500	\$200
Administrative Citation Fine Per Code Section Violated - 3rd and All Subsequent Citations	\$850.84	\$850.84	\$700	\$716	\$597	\$500	\$1,000	\$500
Administrative Citation Lien Processing and Late Payment Penalty	\$503.93	\$503.93	\$226 + Vendor Cost	We cite through Data Ticket, they charge the late fees and do the lien process against property.	Admin Citation + 50% late fee	Actual Cost + 28% Penalty	N/A	We do not lien for citations. If they do not pay we will send them to collections
Notice of Violation Admin. Charge	\$409.51	\$446.90	N/A	\$450	\$339	N/A	N/A	No charge
Vacant Buildings Annual Registration Fee	\$453.00	\$1,448.78	\$1,040	\$465	\$185	N/A	\$228	No charge

