Enhance General Government Revenue Streams With Comprehensive User Fee Studies

Balancing Cost Recovery and Community Goals

Enhancing general government revenue streams has become a critical need for many public agencies, as waning support from state and federal coffers for local programs has become the standard operating environment – not just a temporary downturn. In addition, citizens have become more attuned to local governments searching for ways to augment revenues; therefore, cities, counties, and other public agencies must be conscientious of the impact of user fees on greater civic goals. For this reason, FCS GROUP recommends that user fee studies be approached not only from a cost perspective, but also, a beneficiary point of view:

- What is the full cost of providing government services, including direct effort, indirect supporting activities, and organizational overhead?
- Who benefits from each service? To what degree does the community as a whole benefit, and to what degree does it benefit the individual requesting the service?

The answers to these questions will drive user fees that are not only cost-based (and legally defensible), but policy-based too. Success comes by not walking away once the full costs are known, but then engaging in a dialog about the public and private benefits of different government services and the appropriate funding sources for those mixed benefits (e.g., fees from the private citizen or general tax revenues from the community at large.)

How to Develop Cost- and Policy-Based User Fees

User fees studies, especially when combined with an overhead/indirect cost allocation plan, are an essential management tool: helping jurisdictions improve cost recovery, provide relief to constrained general resources, enhance the equity of cost burdens felt by constituents, and abide by relevant statutory requirements.

In formulating cost recovery objectives for fee-generating activities, FCS GROUP provides full-cost results, identifying the direct costs incurred to provide service to each customer, the indirect activity costs which relate to and support the direct services provided, and the overhead costs encompassing the business and management of government, which stem from a cost allocation plan. Under most statutory guidelines, this full-cost analysis yields the maximum fee defensible.

Why Analyze User Fees

- Update existing revenue streams
- Identify new revenue opportunities
- Align fees with practices, policies, and goals of today’s organization
- Set fees and allocated overhead rates commensurate with actual cost and beneficiaries
- Establish clear, consistent, policy-based cost recovery objectives
- Communicate effectively to front-line staff, policymakers, and stakeholders
- Develop sustainable tools that help governments maintain their revenue streams in the future
But then, FCS GROUP assists agencies in articulating these costs and facilitating a discussion of the benefits of each fee-generating service category. This discussion aids a rational delineation of funding sources for fee-generating activities:

- Does the general public benefit in part for a service provided and thus, should general resources, such as taxes, pay for part of the full cost of service, or
- Does the private applicant solely benefit from the service provided, and thus, should bear more, if not all, of the costs incurred?

Exhibit A illustrates one of the tools FCS GROUP uses to convey basic cost recovery issues to decision-makers. This graphic, when populated with analytical results, describes all the activities that comprise the full cost of each service and compares that amount to existing resources used to fund it. From this, policy makers have the information necessary to make informed decisions about the public and private benefits of the services provided by their agency and the desired means of funding those needs, consistent with the greater goals of their community.

Exhibit A:

<table>
<thead>
<tr>
<th>FULL COST OF SERVICE</th>
<th>RESOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department / City Overhead</td>
<td>General Fund (or other non-fee) Resources</td>
</tr>
<tr>
<td>Indirect Services</td>
<td>User Fee Revenues</td>
</tr>
<tr>
<td>Direct Services</td>
<td></td>
</tr>
</tbody>
</table>

There are a host of methods for calculating reasonable cost-based user fees, each requiring a different level of analytical detail supporting alternative cost recovery goals. An analytical approach is typically determined based on the overall degree to which a service could reasonably be fee-funded, as well as the data constraints of the organization. The most common methods are discussed in the inset to the left FCS Group can help select the method or combination for methods most appropriate, given the individual objectives of the agency, data availability, and prevailing cost recovery climate. Overall, an agency’s user fee study should be tailored to their organization, yielding results that match their practices and goals.

Approaches to Calculating User Fees

1. Analyzing Service Cost Pools against fee revenues collected from them. The full cost of providing general service within a department is analyzed at a functional level and compared to associated revenue streams. This provides an across-the-board adjustment factor to existing fee schedules that would generate revenues on par with costs, or at least on par with cost recovery goals. This approach requires very little staff time data, and is often used for functions such as Parks and Recreation, where the lists of fees are extensive and pricing is more sensitive to the market than pure cost.

2. Calculating basic average unit costs of service: A fully loaded labor rate is calculated and applied to the time it takes to perform one or an average unit of service. This method is used for most general municipal fees, especially where 1) labor is the primary cost driver and 2) the level of service provided does not vary greatly among occurrences.

3. Developing fully loaded fees for functions, which can be primarily or entirely fee-supported: For functions such as building inspection, plan review, and engineering, a “billable” rate for service can be developed. This approach uses the most detailed level of timekeeping that can be obtained or created from estimates, and it develops fee structures that could, if policy mandates it, fully support the development review function. This approach is very similar to that taken by private consulting firms to set fully loaded fees, which can recover all costs.

Contact us at: www.fcsgroup.com