



**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
STAFF REPORT**

Agenda Item No.5B  
February 18, 2021

**TO:** HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
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**SUBJECT: FEE STUDY UPDATE**

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**SUMMARY:**

Fees are regularly studied and updated by department to ensure the proper recovery for cost of services in accordance with the cost recovery rates established by the City Council. Departments are reviewed on a rotating basis such that each department's fees are comprehensively studied and updated every 3-5 years. This year, staff recommends fee updates for the following departments:

- Finance
- Harbor
- Public Works
- Utilities

The results of the fee study updates are as follows:

Department	Increasing	Decreasing	Eliminated	No Change	New Fees	Totals
Finance	19	5	1	6	6	37
Harbor	18	2	0	0	5	25
Public Works	18	12	3	5	2	40
Utilities	7	4	2	5	4	22
Total	62	23	6	16	17	124
PCT of Total	50%	19%	5%	13%	14%	100%

There are also a few fee updates outside of these departments:

- All Departments – Lobbyist registration fee, Public Records Act Request (PRAR) photocopies, flash drive
- Community Development Department – Title 17 related appeals fees
- Library – black & white and color copies

Staff recommends that the fee schedule updates become effective July 1, 2021, pending City Council approval.

### **RECOMMENDED ACTION:**

Receive and file.

### **DISCUSSION:**

#### **Background**

Newport Beach Municipal Code (NBMC) Section 3.36, Council Policy F-4 (Revenue Measures) and Item 12 of the Fiscal Sustainability Plan (FSP) provide staff and the City Council with policy guidance related to setting cost recovery targets and updating user fees. User fees, or cost-of-service fees, are charged to a private citizen or group for services performed or provided by a government agency on their behalf. If the service benefits primarily an individual or group of people, then the burden of that cost should be borne by the person receiving the benefit.

NBMC Section 3.36.030 sets the cost recovery for user fees at one hundred percent (100%), with the exception of the subsidized fees listed in Exhibit “A” of that same section, as well as those limited by California or Federal statutes. A recommendation for less than a hundred percent (100%) cost recovery rate may occur when a service is beneficial to the community at large along with specific individuals or groups, and/or when there is an economic incentive, or disincentive, to do so. In these cases, the General Fund typically subsidizes the service. Any newly proposed fee or fee increase that is not approved will be absorbed through General Fund subsidy.

The Schedule of Rents, Fines, and Fees (SRFF) is a customer service document maintained by the Revenue Division, available online, which includes cost-of-services fees, as well as fines and penalties, rents, and other charges imposed by the City or mandated by the State of California. Fees approved by City Council update the cost-of-services fees within the SRFF.

This latest fee study was conducted by the City’s consultant, MGT of America (MGT). In order to establish fees on the basis of full cost recovery, it is necessary to determine the cost of services. MGT conducts a comprehensive review and update of the City-wide cost allocation plan and direct user fee calculations for each department on a rotating basis every three to five years. MGT uses well-established cost accounting methodologies to calculate our municipal fees on a full cost recovery basis and contracts with significant number of municipalities in California.

This year, MGT studied the following departments:

- Finance
- Harbor
- Public Works
- Utilities

The complete list of studied fees can be found in Attachment A.

MGT meets with each of the studied departments to discuss the services provided, the annual volume for those services, and the staff and time estimates for working on said services. MGT then calculates the department staff's fully burdened hourly rate, which includes both internal administrative as well as citywide overhead costs. The fully burdened hourly rates are applied to the time estimates provided by staff and the fee is calculated. MGT reviews and cross checks the results to ensure the data is valid and asks each department to review the calculations for accuracy and reasonableness. Once the calculations are confirmed, department staff then recommends that the fee should either be fully recovered or subsidized. An example of this process is provided in Attachment B. NBMC Section 3.36.030 Exhibit "A" subsidy changes can be found in Attachment C.

The most common reasons for fees to go up or down are: 1) costs changing over time, most often increasing 2) the staff performing the service changes, and/or 3) the amount of time to perform the service changes. Below is a summary of how studied department fees are changing:

### Finance

The Revenue Division of the Finance Department maximizes and safeguards the City's revenues by implementing and enforcing Municipal Code revenue programs. These programs include, but are not limited to, tax collection, short term lodging, film permitting and parking. The Revenue Division was last studied in 2016.

The results of the Finance fee study updates are as follows:

Department	Increasing	Decreasing	Eliminated	No Change	New Fees	Totals
Finance	19	5	1	6	6	36
PCT of Total	51%	13%	3%	16%	16%	100%

Staff recommends changes to the following fees:

- Delinquent Transient Occupancy Tax (TOT) Payment fee (\$54) – Delete. A 10% penalty, as well as interest at the rate of 1½% per month, is already charged when TOT payments are submitted past the due date.
- TOT Reprint fee (\$14) - Rename to "Zero Bill Reprints" and add fee as subsidy to NBMC Section 3.36.030 that will establish the recovery at 0% to reflect current administrative practice. Zero bills are based on forms that customers complete to

calculate the tax owed. Staff time to process is minimal and current practice is not to charge the fee.

The following new fees are recommended:

1. Short Term Lodging Permit (STLP) Reinstatement (\$91) – Applies if an owner's short term lodging permit is suspended and after the designated time within NBMC Section 5.95.065 the owner wishes to reapply. This fee covers staff time to reinstate the permit.
2. STLP Suspension or Revocation Hearing (\$509) – Pursuant to NBMC Section 5.95.065, an owner may request a hearing after their permit is suspended or revoked. This fee covers staff time as well as the cost of the hearing officer. Staff recommends subsidizing this fee at 50% so there is equal cost sharing between the City and the appellant; and subsidizing this fee at 100% if the appellant is successful.
3. Film Permit – Review (5 or fewer cast & crew) (\$12) – The City has a contract with FilmLA to process film permits; however, all permits require staff review prior to final approval. Smaller shoots with five or fewer cast and crew, like family portraits and school photos, take less staff time to review.
4. Film Permit – Review Fee (6 or more cast & crew) (\$51) – Larger productions, those with 6 or more cast and crew, may require additional department review, have multiple locations, and/or parking requirements.
5. Film Permit Staff Time Outside of Permit Application (fully burdened hourly rate of staff and actual time) – Some film permits require scheduling and coordinating Police and Fire – Lifeguard staff or other City staff to be present at the production.
6. Film Permit – Cancellation (for permits requiring additional City services) (fully burdened hourly staff rate and actual time) – at times a permittee will decide they no longer require additional City services at the production or reduce the amount of time staff are required to be present. These amendments or cancellations require administrative staff time to coordinate the staff cancellation and scheduling.

## Harbor

On July 1, 2017, the City took over responsibility for managing harbor operations from the Orange County Sheriff. Initially, the City utilized the fee schedule from the County of Orange to charge for fees. A fee study was conducted about a year later after staff was able to evaluate the services provided. The last Harbor Department fee study update was adopted January 22, 2019, through Resolution 2019-03. This Harbor Department fee study was taken to the Harbor Commission on January 13, 2021.

The results of the Harbor fee study updates are as follows:

Department	Increasing	Decreasing	Eliminated	No Change	New Fees	Totals
Harbor	18	2	0	0	5	36
PCT of Total	72%	8%	0%	0%	20%	100%

Staff recommends changes to the following fees:

- Appeals or Calls for Review (\$1,250 for appeals to Harbor Commission; \$940 for appeals to City Council) - Harbor appeal fees are currently set to charge on an hourly basis at staff's 100% fully loaded hourly rate. NBMC Section 17.65 was revised last year to outline the procedures for appealing a decision from the Community Development Director, Public Works Director, Harbormaster, and Harbor Commission. The studied fees varied between departments due to different staff and time estimates (shown in the table below). In order to provide continuity and remain in line with other subsidized appeals fees within the City, staff recommends a flat appeal fee which is approximately 50% of the average fee between departments. Staff also recommends a subsidy of 100% if the appellant is successful.

Service	Full Cost	50% Subsidy	Recommended Flat Rate
a. Appeal of <b>CDD Director</b> Decision to Harbor Commission	3,030	1,515	1,250
b. Appeal of Harbor Commission Decision to City Council ( <b>CDD</b> )	2,073	1,036	940
c. Appeal of <b>Harbormaster</b> Decision to Harbor Commission	1,796	898	1,250
d. Appeal of Harbor Commission Decision to City Council ( <b>Harbor Dept</b> )	1,551	775	940
e. Appeal of <b>PW Director</b> Decision to Harbor Commission	2,699	1,350	1,250
f. Appeal of Harbor Commission Decision to City Council ( <b>PW</b> )	2,030	1,015	940
g. Average Appeal to Harbor Commission $(a+c+e)/3=g$	2,509	1,254	1,250
h. Average Appeal to City Council $(b+d+f)/3=h$	1,885	942	940

- Harbor Special Events – Simple (\$95) - Staff recommends changing the “Raft Up Permit” name to “Harbor Special Events – Simple” in order expand permit approvals to include events such as boat races and raft ups.
- Marine Activities Permit (MAP) application (initial) – **Service Provider** (\$365);

MAP application (initial) – **Charters** (\$1,137); MAP application (initial) - **Boat Rentals** (\$1,137); MAP application (initial) - **Human-Power Rentals** (\$1,137) - NBMC Section 17.10 was recently revised to require most commercial activity in the Harbor to obtain a MAP. Staff worked with Harbor Commission to identify the most common business types, listed above in bold, in the Harbor who would be required to obtain a MAP pursuant to the new ordinance.

Staff recommends adding the following new fees:

1. Environmental Response (\$73 per hour plus actual materials cost) - Applies when a boater experiences mechanical or vessel system failure that results in hazardous materials being introduced into the harbor, necessitating staff to contain the hazardous material and a contractor to clean it.
2. Harbor Special Events – Complex (\$491) - Large scale harbor events require assignment of Harbor Department resources during the planning and execution of the activity.
3. Large Boat Permit ( $\geq$  80 Linear Feet), Requiring Interagency Coordination (\$736) Applies when a large motor yacht or vessel requests temporary mooring permits within the Harbor, where coordination with the owners' representatives, the United States Coast Guard, and/or third-party service providers is required.
4. Large Boat Escort (per escort and per vessel) (\$102) – Applies when Harbor Department vessels are required to provide escort services to large vessels entering or departing the Harbor.
5. Multiple Vessel Mooring System Application (\$503) – Applies to permittees requesting consideration for the installation of approved float systems on a permitted off-shore mooring.

Due to the recent updates to Title 17, staff recommends deleting the current subsidy of \$100 for "Appeal of lease/permit under Chapter 17.65". This subsidy was intended for appealing a lease/permit decision rendered by a hearing officer. Because hearing officers are no longer hearing these appeals, this subsidy is no longer relevant.

## **Public Works**

The Public Works Department is responsible for managing a comprehensive capital improvement program, including the promotion of a safe and efficient transportation system. Public Works also manages public property through permitted encroachments; ensures the safety of utility company activities, private construction and special events in the public right-of-way; reviews plans for residential and commercial development as they relate to the public right of-way; and oversees activities that protect and improve the harbor and upper bay. The proposed changes to the Public Works fees cover the following areas which have not been updated since 2015: Engineering & Transportation, Refuse, and Water Quality.

The results of the Public Works fee study updates are as follows:

Public Works Department	Increasing	Decreasing	Eliminated	No Change	New Fees	Totals
Engineering & Transportation	12	12	3	5	2	34
Refuse	2	0	0	0	0	2
Water Quality	4	0	0	0	0	4
Total	18	12	3	5	2	40
PCT of Total	45%	30%	8%	13%	5%	100%

### Engineering & Transportation

Staff recommends changes to the following fees:

- Encroachment With Other Department/Division Review and the Encroachment Without Other Department/Division Review – NBMC Section 3.36 currently subsidizes these services at 57% and 88% recovery. Staff recommends removing both subsidies so these fees can be charged at full cost recovery.
- Engineering Field Inspection (\$138) – Currently, there are three separate fees at the same cost for engineering field inspections. Staff recommends combining them into one fee.
- Plan Check with Pre-Permit Review (\$155) – Delete. There is no material difference in staff time or process from that of a regular plan check.
- The same recommendation for Chapter 17.65 appeals as described under the Harbor Department applies to appeals related to Public Works Director decisions.

Staff recommends adding the following new fees:

1. Encroachment & Engineering Agreement Prep – Planning Commission (\$3,139)  
The City currently has an Encroachment & Engineering Agreement Prep fee; however, some agreements require Planning Commission Review while others do not. Creating a separate fee when Planning Commission review is required applies a fairer distribution of costs. This new fee covers the increased amount of staff time required, coordination between multiple departments, and public hearing expenses, such as the cost of mailings and the posting of the public notice. The current Encroachment & Engineering Agreement Prep fee will decrease as a result of this split.
2. Plan Check (new construction) add-on for Harbor Commission Public Hearings(\$2,130) – The City currently has a Plan Check Fee; however, similar to the fee above, some plan check fees require Harbor Commission Review while others do not. The addition of this fee ensures that costs are more fairly distributed based on the complexity of the project.

## Refuse

The fees in this latest study were updated based on current staff and time estimates appropriate for those services.

Staff recommends adding the following pass through fees:

1. Tree Planting/Removal (actual contract expense)
2. Supplemental Tree Trimming (actual contract expense)

## Water Quality

Activities within this service area are designed to maintain compliance with state and federal permits and regulations that promote clean water environments for the Newport Bay, ocean, shoreline, and other sensitive areas.

Staff recommends changes to the following fees:

1. Water Quality Construction Site Inspections – Staff recommends a tiered fee structure based on the complexity and size of the project. The number of inspections required can be as low as just one during the life of the project and other circumstances can require as many as eight or more. In order to ensure full cost recovery, staff recommends this tiered fee structure.
2. Electric Vehicle (EV) Charger (\$0.46 per kWh) – Historically, this fee only included the pass-through cost of electricity and the cost of the EV provider contract agreement. Staff recommends updating the fee to include staff time for the administration of the EV program.

## **Utilities**

The Utilities Department provides clean, safe, and responsive utility and infrastructure maintenance services to the community. They were last studied in 2016.

The results of the Utilities fee study updates are as follows:

Department	Increasing	Decreasing	Eliminated	No Change	New Fees	Totals
Utilities	7	4	2	5	4	22
PCT of Total	32%	18%	9%	23%	18%	100%

Staff recommends changes to the following fees:

- Lifting Eye for Trench Plates (\$121) and Trench Plate Delivery (\$452) – Delete. The Utilities Department no longer provides or delivers trench plates for



construction projects because they are provided by a contractor.

- Construction Water Meter – Per Month (\$99.89) – This fee is the same as the 2-inch water meter within the water rate study and should be updated in conjunction with that rate each year.
- Utilities water meter and water and sewer meter box and lids (actual cost) - These charges are detailed in Attachment D.

Staff recommends adding the following new fees:

1. Sewer Only Establishment Fee (\$49) – This fee would apply when a property owner receives their water supply entirely from an entity other than the City (ex. Mesa Water or Irvine Ranch Water District) but their property connects into the City sewer system. This fee would cover the cost of the initial access into the sewer system and setting up the customer's account.
2. FOG (Fats, Oils, and Grease) Non-Compliance (additional inspections) (\$70) The City currently covers the cost of the initial annual inspection. This fee would cover the cost of additional inspections should they remain non-compliant with NBMC.
3. Water and Sewer Service Establishment – Non-Business Hours (turn-ons) (\$321) This fee would apply when a customer requests their services be turned on outside of normal business hours. The City is required to pay overtime to the on-call employee tasked with performing this service and this additional fee would help recover that cost.
4. Re-Inspection Fee (hourly) (\$165) - This fee will be charged when re-inspection(s) are required due to non-compliance with prior inspection instructions or the terms and conditions of the permit have not been met.

## Other Fee Updates

Staff recommends the following:

1. Lobbyist Registration (pass through contractor cost) - Currently, the contractor does not charge a fee to register lobbyists, but if the contractor does charge a fee in the future, that cost would be passed to the individual registering.
2. Regular Photocopies (\$5 per 5 minutes) – Delete. The current \$5 per increment charge was calculated using the Deputy City Clerk salary and benefits. The staff positions can vary and are calculated using the appropriate staff who conducts the copies. With advancements in technology this fee is rarely charged as most PRAR requests are no longer copied, but rather emailed or loaded onto a flash drive.
3. Flash Drive (\$6) – At times the City Clerk’s Office is requested to provide documentation for PRARs on flash drives. Adding this pass-through fee will make the amount of the fee available to the public.
4. Appeals or Calls for Review (\$1,250 for appeals to Harbor Commission; \$940 for appeals to City Council) – As stated above, the revised NBMC Chapter 17.65 addresses appeals of the Community Development Director decisions to the Harbor Commission and Harbor Commission decisions to City Council.
5. Per Page Copies (\$0.35 black and white; \$0.45 color) – The Library provides copiers to the public for making black and white and/or color copies. The per copy cost for Library copies is different than the average cost of copies for City departments. The cost is calculated using the replacement cost of the copier, its useful life, the annual number of copies, the maintenance cost of the copiers, and paper costs. The study calculated the cost of Library black and white copies at \$0.39 per copy and color copies at \$0.49. Staff recommends these costs be rounded down to the nearest nickel for easy application. The Library currently charges \$0.15 per black and white copy and \$0.75 per color copy.

Resolution No. 2018-55 provides that Harbor rents (approved by Resolution No. 2019-3) and facility rentals (approved by Resolution No. 2018-55) shall increase annually by changes to the Consumer Price Index (CPI), but limits the annual increases to 3 consecutive increases. The limitation was to ensure that cost of service fees is studied within the 5-year timeframe as directed in NBMC Section 3.36.010. However, because rental fees are outside of the rotating comprehensive fee studies, staff recommends clarifying the CPI language to exclude those charges from the 3-year cap.

Conclusion:

Staff estimates that these fees, if approved by Council as recommended, will amount to approximately \$216,000 in additional revenues for the Water or Sewer Funds and a decrease in revenues of approximately \$65,000 in the General Fund. However, this projection does not account for any fees where volume statistics are unavailable.

Staff intends to bring the proposed recommendations to the City Council for formal action next month. Any newly proposed fee or fee increase that is not approved will be absorbed either through General Fund, Water Fund, or Sewer Fund subsidy.

Prepared and Submitted by:

/s/ Theresa Schweitzer

Theresa Schweitzer  
Senior Accountant

Attachments:

- A. FY 2020-21 Studied Department Changes
- B. Application of Indirect Costs to the Calculation of Fees for Services
- C. Newport Beach Municipal Code Section 3.36.030 Exhibit A Changes
- D. Utilities Pass Through Fee Updates