

**HARBOR RESOURCES
COST OF SERVICE REPORT:
CITY OF NEWPORT BEACH**



**PREPARED BY
MAXIMUS, INC.**

**FINAL REPORT
JULY 11, 2007**



BACKGROUND

The City of Newport Beach retained **MAXIMUS** Inc. to analyze all current and potential cost of service activities for the Tide and Submerged Land Fund administered by the Harbor Resources Division. Through this study, we determined the full cost of services offered by the specific areas for which user fees are currently being charged or could be charged. *Full cost*, as used in this report, includes all eligible direct and indirect costs associated with providing each service, including direct support costs from other divisions, plus department and Citywide overhead.

The Harbor Resources Division is funded by an enterprise fund within the City of Newport Beach government structure, which reports to the City Manager. The Division receives guidance from the Harbor Commission, a seven-member body appointed by the City Council. The Tide and Submerged Land Fund has been operating in a deficit for several years. The Division has numerous current fee-for-service activities and has considered expanding the existing list where and as appropriate. This study will be incorporated into a larger comprehensive analysis that addresses three components. The first, presented, herein, is the Harbor/Tidelands Cost of Services Study, which details all direct and indirect costs of service and support provided to the Harbor/Tidelands. The two remaining components of Appraised Value and Economic “Capital” have been performed by other consulting firms.

The Harbor Resources Division objective is to protect and improve the resources of the Newport Harbor, Beaches and Tidelands. Support from other City Departments/Divisions has been calculated and incorporated into this analysis. This support includes the following departments:

- Harbor Resources
- Parking Operations
- Code and Water Quality
- Police
- Fire
- Planning
- Building
- General Services
- Public Works – Engineering
- Utilities
- Utilities - Oil & Gas



APPROACH

MAXIMUS performed the following tasks in order to accomplish the aforementioned objectives:

- ⇒ **MAXIMUS** conducted extensive interviews with supervisors and select personnel to identify all fee related services. This allowed for the development of a comprehensive cost analysis with a particular emphasis on identifying areas where service fees were insufficient or non-existent.
- ⇒ Extensive data collection and a detailed research process were undertaken to provide a total understanding of the Department's operation.
- ⇒ Interaction with City Administrators ensured that project results were consistent with the objectives of the City and could be implemented.
- ⇒ A computer-based analysis was conducted which documents the cost structure of Harbor Resources and related services.

FINANCIAL INFORMATION

The source of financial information used in this analysis is the FY 06/07 approved operating budget. Costs have been adjusted to reflect citywide overhead costs identified in the City's most recent central services cost allocation plan. Central services include costs for accounting, human resources, information technology, city administration, and other citywide support costs, not accounted for in the direct department appropriation, but incurred by the City in support of Harbor Resources and other City operations. Costs also include depreciation of general fund buildings and equipment that are used in the delivery of services through the cost allocation plan.



METHODOLOGY

This report includes the analysis of fee-for-service activities provided within the Harbor Resources Division and all other supporting departments. As previously discussed, the principle goal of this project is to determine the full cost of providing services to the City tidelands and harbor, including any support services from other City Departments/Divisions and where practical to make recommendations for fee adjustments to improve the level of cost recovery. The following sections describe the fundamental methodologies employed by **MAXIMUS** consultants in undertaking this engagement.

Direct Service Costs – **MAXIMUS** consultants met with representatives from several program areas within the City to review staffing assignments and responsibilities related to user fee services, as well as to determine necessary operating costs and resources. Based upon these discussions, approaches were developed for the identification of direct service costs related to each user fee service area. Based upon the information provided, direct costs, along with the indirect costs, were allocated into the various fees for services.

The Net Direct Work (“Billable”) hours per day has been calculated for each department/division included in the study starting with 2080 hours. The total hours is reduced by non-productive time including: vacation, sick, holiday, seminars, conferences, training, staff meetings, supervisor meetings, break time, office hours, as well as department supervision, management and administration.

Overhead Costs – In addition to the direct costs, the City incurs significant expenses related to administrative and support costs necessary in the delivery of services. These costs include departmental and divisional administration, facility costs, accounting and human resources, citywide administration, etc. In order to accurately represent the full cost to the City of Newport Beach in providing such services, these overhead costs must be accounted for in each service area analysis. **MAXIMUS** utilized the City’s most recent cost allocation plan. **MAXIMUS** recommends updating the indirect overheads costs to the most current plan upon completion.



EXECUTIVE SUMMARY

MAXIMUS analyzed eleven (11) Divisions/Departments that provide support and services to the harbor, beaches and tidelands in the City of Newport Beach. The City's total cost of services to the tidelands, which includes the harbor, beaches, tide, and submerged land, has been calculated at \$21,266,525 (see Appendix O for detail). The Tidelands Fund deficit could be reduced by \$1.9 Million with implementation of the recommended fee increases. The potential new fee revenue is from services that include: plan reviews and inspection services performed by Harbor Resources, Code and Water Quality, Fire Prevention, Public Works, Utilities, Planning and Building.

The following four services require cross-department support:

- 1. Non-Commercial Pier Permit** - is reviewed by Harbor Resources and Water Utility. The current fee for a Non-Commercial Pier Permit is \$97; however, the full cost is \$413. Therefore, the City is subsidizing this service by \$315 per unit.

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| Non-Comm Pier Permit Processing - \$134 | Har Res # 25 |
| Non-Comm Pier - RGP Dredging - \$248 | Har Res # 21 |
| Non-Comm Pier-Backflow Monitoring - \$31 | Util-Water # 2 |

- 2. Commercial Pier Permit** – is reviewed by Harbor Resources, Fire Prevention and Water Utility. Commercial Piers are billed as rentals pursuant to Council Policy H-1. However, the current fee based on cost-of-services recovery is \$0; however, the full cost is \$1,358. Therefore, the City is subsidizing this service by \$1,358.

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| Commercial Pier Permit Processing - \$707 | Har Res #27 |
| Commercial Pier Fire Code Insp - \$305 | Har Res # 16 |
| Commercial Pier – Backflow Monitoring - \$31 | Util-Water # 2 |
| Commercial Pier – Fire Code Insp - \$105 | Fire Prev # 1 |
| Commercial Pier – Routine Marina Insp - \$210 | Fire Prev # 2 |



3. **Harbor MAP (Marine Activity Permit) – Minor and Complex** – are both reviewed by Harbor Resources and Planning. MAXIMUS recommends setting the fee at full cost recovery to recover all staff time from both departments.

The current fee for Harbor MAP - Minor (New/Renewal) is \$130; however the full cost is \$1,039. Therefore, the City is subsidizing this service by \$909 per unit.

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| Harbor MAP-Minor (New/Renewal) - \$652 | Har Res #14 |
| Harbor MAP-Minor (New/Renewal) - \$387 | Plng #1 |

The current fee for Harbor MAP – Complex is \$750; however the full cost is \$1,198. Therefore, the City is subsidizing this service by \$448 per unit.

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| Harbor MAP-Complex - \$768 | Har Res #15 |
| Harbor MAP-Complex - \$430 | Plng # 2 |

4. **Dock New Construction** (Residential and Commercial) is reviewed by Building and Harbor Resources. MAXIMUS recommends that the City recover the full cost of New Residential and Commercial Dock Construction to include the cost of both Harbor Resources and Building and if necessary, Fire Prevention, as Fire Prevention indicated that they review approximately 4 per year, as necessary. MAXIMUS also recommends a consistent scale for this fee in both Harbor Resources and Building. For example, the current fee for a Residential Dock – New Construction valued in the range of \$8,001 to \$50,000 is \$617. Harbor Resources charges \$179 plus \$438 from Building, however, the full cost is \$2,431, thus subsidizing this service by \$1,814 per unit.

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| Res. Dock – New Construction - \$1,462 | Har Res # 42 |
| Res. Dock – New Construction - \$ 969 | Bldg PI # 3 |

See Appendix P for additional detail.

The remaining services do not require any cross-departmental support.



The pricing of certain public services at cost has a number of benefits including:

- ◆ User charges are paid by all users, including those exempt from general tax sources.
- ◆ User charges are paid by non-residents, reducing the burden on taxpayers.

Appropriately priced user charges avoid subsidization in instances where the service is not provided to the general public, but for the benefit of a specific person or group charged.

A service for which a user fee is charged can be viewed as the time and/or material costs paid by the government agency on behalf of a private citizen or group. The underlying assumption of user fees is that for any services benefiting individuals, and not society as a whole, the individuals should pay for some portion of the cost of providing the service.

Full costs developed for services rendered include: direct labor costs, divisional and departmental supervision and administration, and supplies and material costs. Indirect costs have been included using the City's current Overhead Factor and have been allocated from central service departments to the department or division performing the service.

HARBOR RESOURCES SUMMARY:

The analysis of the services provided indicates that the City is currently spending \$2,234,567. The current fees are recovering \$223,832. The difference is covered primarily by general tax dollars. Of this subsidy, **MAXIMUS** recommends increasing this recovery to \$906,731, thus reducing the current subsidy of \$2,010,735 to \$1,327,836. This represents an increase of more than 300% in user fee revenue.

See Appendix A for detail.



CODE AND WATER QUALITY SUMMARY:

MAXIMUS recommends setting the fees for service for inspections, code violation inspections and encroachment investigations at full cost recovery, in addition to the “fines”. Our analysis of the services provided indicates that the City is currently spending \$564,107 to provide these services. **MAXIMUS** recommends setting the fees for these services at full cost recovery thus reducing the subsidy by an additional \$564,107.

See Appendix B for detail.

POLICE SERVICES SUMMARY:

Police and patrol services are generally tax supported, as they are here in Newport Beach. Any revenue received from the court will offset some of the substantial costs in keeping the City a safe place in which to live, work and visit. **MAXIMUS** calculated almost \$4.5 Million in costs related to Police Services provided to the harbor, beaches and tidelands. There is no recommendation for any revenue increase in this area.

See Appendix C for detail.

FIRE SAFETY SERVICES SUMMARY:

Life Safety Fire Response and Lifeguard services are also generally tax supported, as they are here in Newport Beach. The cost of keeping the City a safe place in which to live, work and visit is accepted and approved by the residents in the City of Newport Beach. **MAXIMUS** calculated just over \$7 Million in costs related to Lifeguard and Life Safety Fire Services provided to the harbor, beaches and tidelands. There is no recommendation for any revenue increase in this area.

See Appendix D and E for detail.



FIRE PREVENTION SERVICES SUMMARY:

MAXIMUS recommends setting the fees for service for inspections at full cost recovery. Our analysis of the Fire Prevention services provided indicates that the City is currently spending \$33,094 to provide user fee services, but recovering \$0 in related revenue. The subsidy is funded by general tax dollars. Of this subsidy, **MAXIMUS** recommends setting the fees to full cost recovery, thus reducing the subsidy by an additional \$33,094 .

See Appendix F for detail.

PLANNING SUMMARY:

MAXIMUS recommends setting the fees for service for Planning and Zoning reviews at full cost recovery for application review and 50% recovery for Advanced Planning efforts. It is estimated that 50% of the Advanced Planning efforts support current planning activities, therefore 50% of the advanced planning costs have been included. Our analysis of the services provided indicates that the City is currently spending \$535,407 to provide services, but is recovering \$0 in related revenue. The difference is funded by general tax dollars. Of this subsidy, **MAXIMUS** recommends setting the fees at the above percentages, thus reducing the subsidy by an additional \$282,295.

See Appendix G for detail.

BUILDING PLAN REVIEW & INSPECTION SUMMARY:

MAXIMUS recommends setting the Building Plan Review and Inspection fees related to the tidelands at full cost recovery. Our analysis indicates that the City is currently spending \$143,546 to provide these services. The Building Plan Review services provided in the harbor reflects a 32% recovery level. If the City sets the fees at full cost recovery, the City could recover an additional \$74,111 (detail is shown on Appendix I). The Building Inspection services provided in the harbor illustrates a 136% recovery, thus reflecting a surplus in fee revenue of \$12,723 (detail is shown in Appendix H). The combined current fee revenue is \$82,158. The combined difference of \$61,388 is



funded by general tax dollars. **MAXIMUS** recommends increasing the recovery in Building Plan Review to recover an additional \$74,111 and reducing the recovery level in Building Inspection to full cost recovery, thus reducing the surplus of \$12,723. These recommendations would result in reducing the subsidy amount by \$61,388 for Building services provided in the harbor.

See Appendix H & I for detail.

GENERAL SERVICES SUMMARY:

MAXIMUS has identified \$2.3 Million in costs related to Beach Maintenance that is generally tax supported, as they are here in Newport Beach. There is no recommendation for any revenue increase in this area.

See Appendix J for detail.

ENGINEERING SUMMARY:

MAXIMUS has identified \$435,097 in costs related to primarily CIP Projects and Water Quality that is tax supported and a small portion related to user fees. **MAXIMUS** recommends full cost recovery for the user fee services thus generating \$20,235 in subsidy reduction.

See Appendix K for detail.

UTILITY SERVICES SUMMARY:

MAXIMUS has identified \$688,449 in costs related to Utility support from the Electrical, Water and Wastewater Divisions. **MAXIMUS** recommends full cost recovery for the user fee service related to backflow prevention monitoring which is a component cost of the services provided to commercial and non-commercial piers thus reducing the subsidy by \$39,832.

See Appendix L, M & N for detail.



CONCLUSION:

The total cost of all services provided to the Harbor, Beaches and Tidelands from the Harbor Resources Division, Parking Operations, Code and Water Quality, Police, Fire, Planning, Building, General Services, Public Works-Engineering, Utilities, including Debt Service and Capital Projects totals just over \$21.2 Million. The City has the potential for reducing the General Fund subsidy of the Tide and Submerged Land Fund by increasing the revenue recovered through user fee services by just over \$1.9 Million.

See Appendix O for detail of all costs and Appendix P for user fee costs.

