



City of Rapid City

COMPASS

INDEPENDENT AUDIT

City Fees Audit

Audit Report 13-01

October 2014

October 15, 2014

Members of the City Council:

The City charges fees for a variety of goods and services it provides. Fees help recover some of the cost of providing these goods and services. An effective process for setting fees can encourage efficient and effective provision of services.

Fee setting processes in many City departments incorporate some best practices. However, the City has not established a fee policy to guide departments in the process of establishing and setting fees. A formal fee policy could provide clear direction to staff in setting and adjusting fees and provide information to the public. In addition, information on fees is not always easily accessible by the public.

The Auditor made six recommendations related to City fees. I provided the Mayor and the department directors with a draft of this report on October 15, 2014. Management's response is included in this report.

I appreciate the cooperation and assistance of City managers and employees with this audit.

I would be happy to discuss the audit conclusions, findings, and recommendations with any member of the City Council, City staff, or citizen.

Kelan Kelly
Chief Auditor

Table of Contents

Introduction	1
Scope and Methodology	2
Background	3
Conclusions	8
Criteria	8
Findings and Recommendations	9
Management's Response	
Auditor's Concluding Comments	

Introduction

Across the country, local governments use charges and fees to fund the provision of goods and services such as emergency medical services, libraries, public parking, mass transportation, recreational activities, street maintenance, water, sewer and community development activities.

In Rapid City, departments charge fees for a variety of goods and services. These fees help recover some of the cost of providing these goods and services. The City has established several hundred fees¹. In some cases, fee rates are restricted by state law.

An effective fee setting process can encourage the efficient and effective provision of services. An effective process should include certain steps including calculating costs, periodically reviewing and updating fees, and providing fee information to the public.

Best practices for public financial management recommend municipal governments establish formal fee policies. Fee policies can provide clear direction to City staff in setting and adjusting fees as well as provide information to the City Council and the public. A fee policy will ensure that fees are based on sound information, encourage efficiency, help achieve desired goals, and provide financial transparency to the public.

This audit's objectives were to determine if the City follows good business practices for establishing and setting fees and if improvements can be made in the fee setting process.

¹ For this audit fees are defined as charges for any good, service or activity that provides a benefit to an individual, group or business.

Scope and Methodology

This audit focused on fees and charges for City services in 2013. It also considered policies and procedures for establishing and reviewing fees in place in 2013.

In conducting this audit, staff employed a number of audit methods and techniques. Staff reviewed the Rapid City Municipal Code and South Dakota Codified Laws. We also reviewed City budget documents. Auditors reviewed audits conducted by other local government audit organizations. Staff analyzed documentation regarding fee policies and practices provided by City departments. In addition we evaluated rate studies performed by outside consultants. We reviewed best practice guidance from the Government Finance Officers Association (GFOA), the National Advisory Council on State and Local Government Budgeting (NACSLB), and the United States Office of Management and Budget (OMB). Finally we interviewed managers and staff in departments that charge fees for goods and services.

Compliance with Government Auditing Standards

We conducted this audit in accordance with generally accepted government audit standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the conclusions and findings based on the audit objectives.

Background

Ten of twelve City departments charge fees for the goods and services they provide to citizens and businesses. In the case of some agencies, the revenue collected from fees supports agency operations that are primarily funded from the City's General Fund. For other agencies, fees charged for goods and services provide revenue to enterprise funds which support division or program operations.

Table 1 Agencies Charging Fees

General Fund Agencies	Enterprise Fund Agencies
Community Resources Department	Rapid City Regional Airport
Community Planning and Development Services Department	Rapid City Fire Department - EMS
Finance Office	Rushmore Plaza Civic Center
Rapid City Public Library	Parks and Recreation - Golf Courses
Parks and Recreation Department	Parks and Recreation - City Cemetery
Police Department	Public Works - Solid Waste Division
Public Works - Engineering Division	Public Works - Water Division
Public Works - Streets Division	Public Works - Water Reclamation Division
Public Works - Transit Division	

Source: Auditor Survey of City Department Directors.

Fees and charges contributed significant amounts of general fund revenue to the City over the three-year period from 2010 to 2012 as shown in the table below.

Table 2 General Fund Fee Revenue

Year	Fee Revenue	General Fund Revenue	Percent of General Fund Revenue
2010	\$3.24 million	\$41.19 million	7.9
2011	\$4.86 million	\$45.41 million	10.7
2012	\$3.84 million	\$47.41 million	8.2

Source: City of Rapid City Budget 2012, 2013, and 2014.

In Rapid City, fees are established and set under various authority. A few fees such as traffic accident report copies are set by state law. Some fees such as those charged by the Community Planning and Development Department and water and sewer charges are set in statute (Rapid City Municipal Code). Audit work identified a number of city code sections that contain the authority for various fees. Other fees such as City-owned parking fees, garbage collection charges and fees for recreational activities and programs through the Department of Parks and Recreation are set by City Council resolution. Transit fares

have been set by City Council motion. Governing boards review and set fees for the Rapid City Regional Airport, Rapid City Public Library, and the Rushmore Plaza Civic Center.

In Rapid City, the methods used to establish and set fees vary among City departments. Regardless of the methods used by various authorities, to better inform decisions about establishing and setting fees, City policy makers and City managers should have sound information. Audit work identified nine types of information suggested by best practices to help inform fee policy decisions. Table 3 summarizes this information.

Table 3 Best Practice Information on Fees

Information Item	Provides Information to Answer Questions On
Cost	How much does it cost the city to provide the service?
Service, purpose, users	What is the service? Why does the City provide the service? Who uses the service?
Cost recovery goal	How much of the cost of the service is subsidized by general tax revenue? How much of the cost does the City intend to recover through fees and charges?
Level of use or demand	How many people or businesses use the service?
Comparisons	How do the City's fees compare to other cities or to private businesses?
Past or planned reviews	When did the City set the current fee? When did the City last review the fee? When does the City plan to review the fee?
Stakeholder input	How did the City seek input from stakeholders, such as users of the service? What input did stakeholders provide?
Authority	Does City Code or other legal authority guide the fee?
Fee collection method	How will the fee be collected?

Source: *Performance Audit: Fee Policy Could Guide Staff and Inform the Public (May 2011)*, City Auditor, City of Lawrence, Kansas.

Governments set some fees to recover 100 percent of the cost to provide a good or service. Other fees are set at levels above or below the cost of goods and services for various reasons. Setting fees at appropriate levels can be difficult. However, well-designed fees can provide significant benefits including²:

- Regulating activities related to public health and safety.
- Reducing the need for additional revenue sources.
- Advancing policy initiatives like economic development.
- Promoting service efficiency.
- Equity because fees allocate costs to those receiving the benefit of a good or service.
- Identifying opportunities for expenditure adjustments.

² *Best Practice: Establishing Government Charges and Fees (1996, 2014)*, Government Finance Officers Association and *Fiscal First Aid*, Government Finance Officers Association.

Several public financial management organizations have issued best practice guidelines for establishing and setting municipal fees. The Government Finance Officers Association (GFOA) supports the use of charges and fees as a method of financing governmental goods and services. The GFOA recommends that governments should adopt formal policies regarding charges and fees³. The GFOA specifically recommends that fee policies address:

- The factors to consider when pricing goods and services.
- Whether a jurisdiction intends to recover the full cost of providing goods and services.
- The circumstances where fees would cover less than the full cost of providing a good or service.
- The rationale for recovering less than full costs.
- The considerations that may influence government pricing decisions such as subsidies, economic development, or competition with private business.
- The specifics of how fees and charges will be levied and collected.
- Fees and charges be based on the full cost of providing a service, by calculating the direct and indirect costs.
- Fees and charges be reviewed and updated periodically.
- Information on fees be provided to the public.

The National Advisory Council on State and Local Government (NACSLB) recommends a government adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided. NACSLB recommends fee policies address⁴:

- A requirement to review all fees and charges.
- The level of cost recovery for services.
- The frequency with which cost-of-service studies will be undertaken.
- The policy is publically available.

Suggested best practices for municipal fees call for governments to calculate the full cost of providing a good or service. According to the GFOA full costs include both direct and indirect costs.⁵

³ *Best Practice: Establishing Government Charges and Fees (1996, 2014)*, Government Finance Officers Association and *Best Practice: Adoption of Financial Policies (2001)*, Government Finance Officers Association.

⁴ *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*, National Advisory Council on State and Local Government Budgeting.

⁵ *Best Practice: Measuring the Cost of Government Service (2002)*, Government Finance Officers Association.

- Direct costs include items such as: salaries and benefits; materials and supplies; operating costs such as utilities; depreciation; compensated absences; and pensions.
- Indirect costs include shared administrative expenses such as legal, finance, and human resources.

Despite the lack of a formal fee policy to guide City staff’s work to set fees, a number of departments have a fee setting process that incorporates best practices for municipal fees. Table 4 provides a summary of the best practices employed by City agencies.

Table 4 Best Practices

Agency	Regular Fee Reviews	Regular Fee Adjustments	Calculate Cost of Service	Direct and Indirect Costs Calculated	Consider Relevant Factors	Formal Fee Policy
Airport	Yes	Yes	Yes	Yes	Yes	No
Civic Center	Yes	Yes	Yes	Yes	Yes	No
Community Planning	No	No	No	No	Some	No
Community Resources	No	No	Yes	No	Some	No
Finance Office	No	No	No	Some	No	No
Fire	Yes	Yes	Yes	Yes	Yes	No
Library	Yes	Yes	Yes	Yes	Yes	Yes
Parks & Recreation	Yes	Yes	Yes	No±	Yes	No
Police	Yes	Yes	Yes	No	Yes	No
PW – Engineering	No	Some	No	No	No	No
PW – Solid Waste	Yes*	Yes*	Yes	Yes	Yes	No
PW – Streets	Yes	Yes	Yes	No	No	No
PW – Transit	Yes†	Yes†	No	No	No	No
PW – Water	Yes*	Yes*	Yes	Yes	Yes	No
PW – Water Reclamation	Yes*	Yes*	Yes	Yes	Yes	No

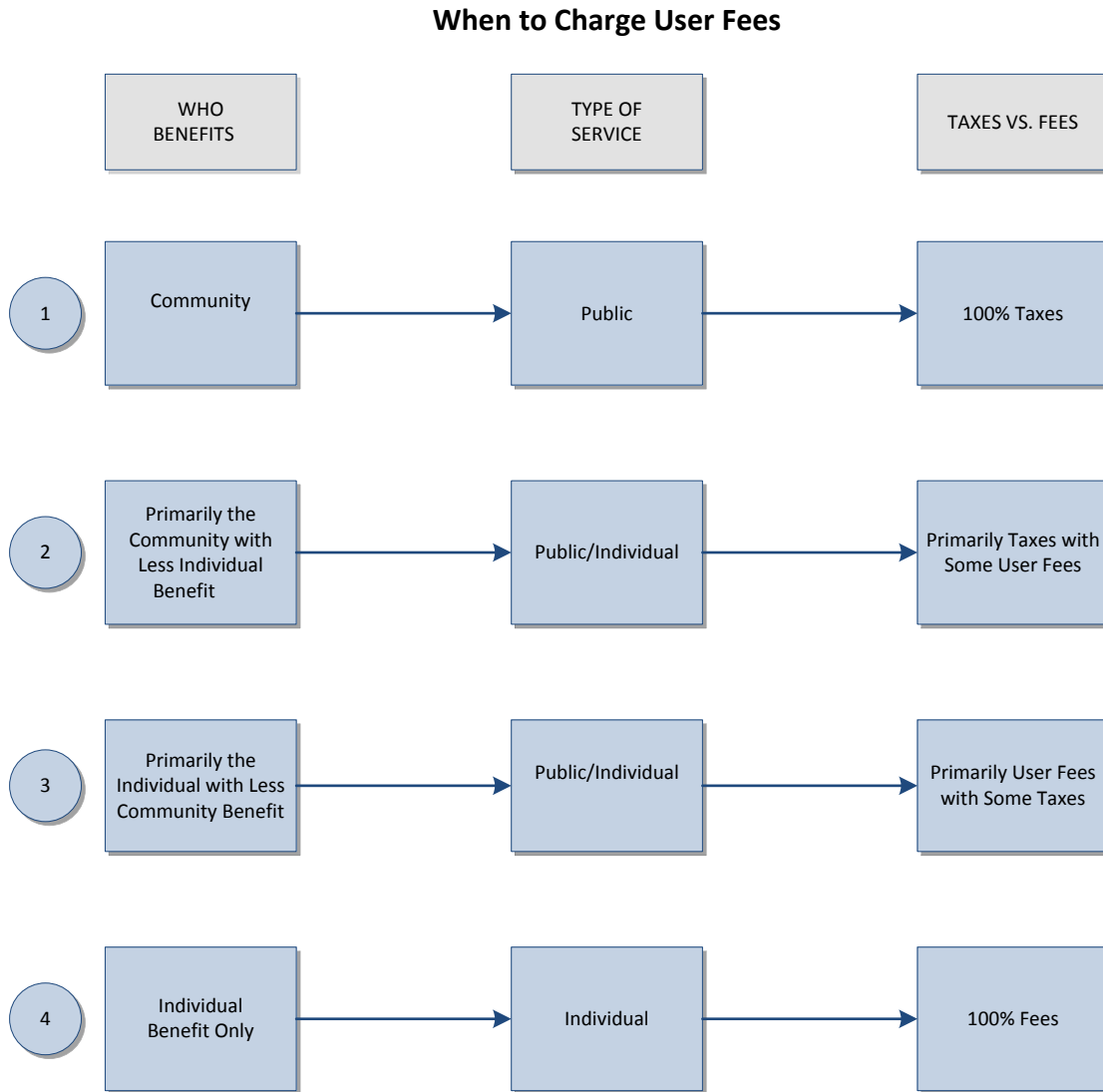
*Consultant studies were performed and multi-year rate plans implemented in 2006 for solid waste landfill and MRF rates and in 2008 for water and water reclamation rates. † Reviewed and adjusted every 5 years as required by the FTA. ±Direct costs are estimated and a 20% allocation used for indirect costs.

Source: Auditor survey of City department staff.

It is also useful to consider the public policy implications when setting and establishing fees. In some cases, recovering the full cost of a good or service may be warranted. In other cases, some level of fee subsidy can be justified in order to accomplish a specific public policy purpose. One way to consider which fees should recover full costs and which fee should recover less than the full cost to provide a service is depicted in the figure on page 7. The diagram provides some guidance on when to charge fees vs when to provide services through tax or other revenue based on the type of service provided and on the intended beneficiary of the service.

In general, fully subsidized services are those that benefit the entire community, while those services for which varying levels of fees may be charged tend to benefit identifiable groups or individuals.

Figure 1 Consideration for Charging Fees



Examples of services that fall under each category:

- (1) Police Patrol
- (2) Fire Suppression
- (3) Community Services
- (4) Land Use, Subdivision, Building Permits

Conclusions

The City does not have a city-wide formal fee policy. Individual City departments have not implemented formal fee policies (with the exception of the Rapid City Public Library). Despite not having a formal policy at the City or departmental level, a number of City agencies use best practices when setting fees. However, citywide guidance in the form of a fee policy developed and implemented by City management would provide a number of benefits to the City. A formal policy on fees would also provide guidelines to managers and staff in the process of establishing and setting fees. Such a policy will also provide more uniformity between departments and encourage the use of best practices for municipal fees.

Fees are contained in a number of different sections of the Rapid City municipal code. In addition, fees have been authorized by a number of different ordinances. In some cases, information on City fees is not readily available to the public.

Criteria

Criteria represent standards against which performance is measured. Depending on the audit topic, criteria may include laws, regulations, contracts, grant agreements, expected performance measures, benchmarks and defined business practices. Criteria identify the requirements, or desired state or expectation, with respect to program or operation.

Our criteria for this audit consisted of best business practice guidelines issued by the Government Finance Officers Association (GFOA), the National Advisory Council on State and Local Government Budgeting (NACSLB), and the United States Office of Management and Budgeting (OMB).

Based on this guidance, best practices for municipal fees include:

- Adopting a formal fee policy;
- Calculating the full cost of services;
- Determining the cost recovery level for individual fees;
- Periodically reviewing fees; and
- Making fee information available to the public

Findings and Recommendations

Recommendation 1: City management should develop and seek City Council adoption of a formal fee policy that includes suggested best practices for establishing, reviewing and adjusting fees.

Management's Response

Recommendation 2: Department managers should use the guidance provided in the City's fee policy to establish fee processes that incorporate best practices for municipal fees.

Management's Response

Recommendation 3: Department managers should calculate the full cost to provide a service as part of the basis for determining the fee rate. Full costs include all direct and indirect costs.

Management's Response

Recommendation 4: Department managers should conduct fee reviews on a periodic basis and use the results to determine when and how to adjust fees.

Management's Response

Recommendation 5: City management should consolidate all fees in one section of the Rapid City Municipal Code or in a single fee ordinance.

Management's Response

Recommendation 6: City management should make information on fees including current rates available to the public in an easily accessible format.

Management's Response

Auditor's Concluding Remarks
