

City of Austin



Billboard Registration Fee Study

January 21, 2011

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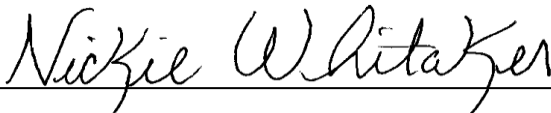
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The following report has been created by Public Financial Management Inc. and is presented by Nickie Whitaker, Senior Managing Consultant.



I. Executive Summary

Executive Summary

The City of Austin (City) Law Department retained Public Financial Management, Inc., to conduct a cost of service study for the City's billboard registration fee. The purpose of this analysis is to determine the full cost of administering the billboard registration fee. The study includes all City departments that contribute to administering this fee. The Law Department provided leadership to the project and support in obtaining information.

An in-depth analysis of individual municipal fees/permits requires a high level of data as well as technical knowledge from staff on the processes for administering them. PFM collaborated with each department involved to ascertain the fully loaded cost of service related to fees and permits. The resulting cost of service findings are reported in Section III *Cost of Service Analysis* of the report.

Based on the results of the analysis, the cost of service for administering the billboard registration fee is \$190. The City is currently charging \$200 for annual billboard registration.

A cost of service analysis is based on the current fee policy and estimates the average time to administer an individual fee/permit. Over time, inflation or changes in the administration of the fee may impact the cost of service. PFM generally recommends that governments implement an inflationary adjustment to fees annually and complete a cost of service analysis once every four years. Inflation indices are commonly used to increase fees annually between comprehensive fee studies.

II. Methodology

Methodology

PFM implemented a proven methodology to evaluate the cost of the City's billboard registration fee. This methodology involved working closely with City staff to collect the most accurate data available and then organizing this data to calculate the cost of service. The first step was to identify and confirm details related to the fee, such as fee title, number of permits issued in a given period and the ordinances related to the fee. Subject Matter Experts (SMEs) were then identified from various departments within the City including:

- Code Compliance
- Law Department, Division of Land Use and Real Estate
- Solid Waste Services

Cost of Service Analysis

Once the details of the fee were confirmed by City staff, PFM interviewed each of the SMEs to determine the best method for allocating employee time to each of the fees (i.e. labor allocation). Salary costs are the main indicator of total costs for providing permitting services; therefore, PFM's general methodology was to first estimate the average time spent on administering a permit. This method is called "manager's best estimate".

Time allocation was calculated by determining the number of minutes or hours spent per fee or permit issued by each employee. The percent of total time spent for each permit type was calculated by multiplying the average time per fee/permit by the number of fees/permits (units) and then dividing by the average annual number of hours worked (productive hours). In line with the City's Human Resources guidelines, productive hours were based upon the total annual number of hours to be worked in a year adjusted for vacation, personal and other types of employee leave. Productive hours are used throughout the time allocation study portion of the fee study in order to convert time submitted in minutes per unit or hours per unit into a percentage of total time for the year.

Table I: Productive Hours

Time	Hours
Base Hours per Year	2,080
Holiday/Personal	-96
Vacation (Weighted Average) Hours	-153
Sick Leave (Average Comparable) Hours	-96
Productive Hours	1,735

It is possible to determine the direct labor costs using the percent of total time worked, salary information and the annual number of fees/permits issued. In addition to direct personnel costs, though, the City also incurs a series of other costs as a result of offering services associated with fees. Four overhead rates were created based on each department's

expenditures to account for these other costs. The 2010 City budget, the City's 2010 A-87 Cost Allocation Plan, as well as actual line item expenditures were used in order to calculate these cost factors. There are four basic cost factors to consider when determining overhead rates: fringe benefits (e.g. cost for employee benefits), other costs (e.g. computers, paper, etc.), internal indirect (e.g. division administrative time) and external indirect (e.g. central department service charges). These factors are shown in the Table below:

Table II: Cost Factors

Cost Factor	Description
Fringe Benefits	Employee benefits including; health, pension, FICA, etc
Direct Costs	Materials, contracts, and supplies for the division
Internal Indirect	Costs associated with the administration of the department or division, mostly constituting administrative personnel and leadership
External Indirect	Central services such as city-wide budget, finance or human resources; based on rates from the Cost Allocation Plan

Each overhead rate was used to calculate the portion of non-salary costs that should be allocated by employee providing each service. A summation of the total overhead costs and the direct labor costs provided the fully loaded cost of service. An average cost, or a cost per unit, was determined by dividing the fully loaded cost by the number of units in a twelve month period. This method was used to compute the average fully loaded cost of each fee.

III. Cost of Service Analysis

Cost of Service Analysis

The Department of Code Compliance administers the billboard registration permit for the City. This involves review of billboard records and details, on-site inspection, post-inspection verification, and data entry.

A cost of service analysis is based on the current fee policy and estimates the average time to administer an individual fee/permit. PFM worked closely with departmental Subject Matter Experts to determine the average amount of time employees spend on each permit type in order to establish the average cost of providing a single permit. The time allocation for each department is presented in two distinct ways, the average time spent per permit and the total percent of time spent on all permits. The following tables are broken down by department and lastly by employee title.

Table III: Average Time per Billboard Registration Permit

Position Title	Hours per Unit
Code Compliance	
Performance Consultant	0.002
Assistant Division Manager (Admin Support)	0.002
Assistant Code Compliance Director	0.051
Code Compliance Manager	0.068
Business Systems Analyst	0.102
Code Compliance Inspector	0.167
Assistant Division Manager (Training)	0.171
Code Inspector C	2.000
Law Department	
Assistant Senior Attorney	0.171
Attorney Senior	0.171
Solid Waste Services	
Account Associate (Financial Specialist)	0.017

Table IV: Total Percent of Time on Billboard Registration Permits

Position Title	Percentage of Time
Code Compliance	
Performance Consultant	0.05%
Assistant Division Manager (Admin Support)	0.05%
Assistant Code Compliance Director	1.50%
Code Compliance Manager	2.00%
Business Systems Analyst	3.00%
Code Compliance Inspector	4.88%
Assistant Division Manager (Training)	5.00%
Code Inspector C	58.57%

Position Title	Percentage of Time
Law Department	
Assistant Senior Attorney	5.00%
Attorney Senior	5.00%
Solid Waste Services	
Account Associate (Financial Specialist)	0.50%

After determining the average time spent on each permit, the average cost per permit was determined by using salary data as well as cost loading factors. Each of the cost loading factors addresses additional costs to the City that are a direct result of offering each service. There are four basic cost loading factors to consider: fringe benefit costs, other direct costs, internal indirect costs and external indirect costs. Each cost rate may also be interpreted as the cost per \$1 of salary to the division. The rates for each department are outlined in the following table:

Table V: Direct and Indirect Cost Rates

Department	Fringe Benefit Rate	Direct Cost Rate	Internal Indirect Rate	External Indirect Rate
Code Compliance	35.29%	61.42%	19.85%	8.30%
Law Department	28.07%	7.86%	9.86%	7.67%
Solid Waste Services	38.26%	49.07%	15.02%	8.30%

The direct labor costs for each employee were summed to determine the total direct cost for each fee. Each overhead rate was then multiplied by to the total direct labor cost to determine the total departmental costs related to the service. The total cost calculation charts are in the following table:

Table VI: Total Cost for Billboard Registration Fee

Division Name	Salary Cost	Fringe Cost	Direct Cost	Internal Indirect Cost	External Indirect Cost
Code Compliance	\$38,308	\$13,519	\$7,604	\$23,529	\$3,180
Law Department	\$7,550	\$2,119	\$744	\$593	\$579
Solid Waste Services	\$261	\$100	\$39	\$128	\$22

A summation of the total overhead costs and the total direct labor cost provide the fully loaded cost of service. An average cost, or a cost per unit (or permit), is determined by dividing the fully loaded cost into the number of units (or permits) in a given year. The cost difference between the current fee and the cost per unit was calculated. The average cost per unit is: \$190.

Table VII: Fee Recommendation

Fee Title	Current Fee	Detail	Cost Per Unit*	New Fee	Cost Change
Billboard Registration Fee	\$ 200.00	per billboard	\$ 193.46	\$ 190.00	\$ (10.00)

*The total number of units is 508, which includes known and registered billboards as of January 10, 2011.

The final recommended rate has been shown rounded: to the nearest 50 cent increment (\$0.50) for fees under ten dollars; to the nearest dollar (\$1.00) if the fee was under twenty-five dollars; to the nearest five dollar (\$5.00) increment if the fee was less than one hundred dollars; and to the nearest ten dollar (\$10.00) increment if the fee was one hundred dollars or more.

Review of City Analysis of Billboard Registration Fee

In July 2010, the City completed an internal analysis of the costs for administering the billboard registration fee. As part of this report, PFM was asked to review and comment upon the methodology and analysis completed by the City. A cost of service analysis is based on the current fee policy and estimates the average time to administer an individual fee/permit; it is a point in time analysis. Overall, the analysis is very detailed and reflects a great deal of research. PFM noted the following key differences which could influence the calculation of the cost of service:

Indirect Labor Costs: PFM's methodology includes an Internal Indirect Cost rate, which addresses costs associated with the administration of the department, mostly constituting administrative personnel and leadership. Some of the internal management costs are specifically identified in the City's analysis. It is unclear if the City accounted for the general administration of the departments involved in addition to management directly associated with the fee.

External Indirect Costs: Any government activity requires a minimum amount of core city services to function. These core city-wide services may include budget, finance or human resources, etc. PFM refers to the cost of these city-wide services as the External Indirect Rate. For example, the calculated External Indirect Rate for the Code Compliance Department is \$.08 for every \$1 of salary related to the billboard registration fee. Because the City did not include these costs in their cost of service analysis, the estimated cost per unit may be understated.

Productive Hours: Productive hours represent the actual hours worked during a year. In line with the City's Human Resources policies, productive hours were based upon the total annual number of hours to be worked in a year adjusted for vacation, personal and other types of employee leave. PFM identified the number of annual productive hours as 1,735. Because the City used 2,080 hours in their calculation, the cost per unit may be overstated.