



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

September 14, 2009

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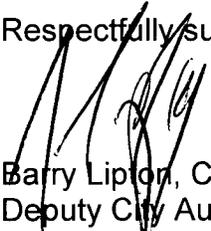
Mayor and Council Members:

SUBJECT: City Usage Fees Audit Report

We are pleased to send you the audit report of the Office of Management and Budget Department. This audit began in November 2008 and concluded with an exit meeting with department management in June 2009. Management's verbatim response is included in Appendix B of the report. The Office of Management and Budget Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,


Barry Lipton, CPA, DABFA
Deputy City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of the Office of Management & Budget
City Usage Fees

Project No. AU08-011

September 14, 2009

Executive Summary

As part of the FY2008 annual audit plan, we conducted an audit of the Office of Management & Budget (OMB), Usage Fees. The audit objective, conclusions and recommendations follow:

Objective: Are costs recovered in City usage fees?

Conclusions: The City does not consistently use cost recovery methodology to set usage fee rates. Therefore, at this time it is not practicable to determine the extent to which costs are recovered in City usage fees.

We specifically noted that the City does not have a comprehensive written policy for setting usage fees and the recovery of costs associated with providing the related services.

We recommend OMB work with City management and departments to develop a comprehensive policy for usage fees. The following should be included in the policy:

- Information outlining the goal for cost recovery and the categorization of usage fees into various levels of cost recovery.
- A requirement to compute the full cost of providing a facility or service; full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities.
- Instructions for departments to follow, including appropriate formulas and templates for the purpose of calculating appropriate costs, and the methodology used to determine cost recovery.
- A requirement to document the basis for each usage fee established to include a rationale supporting the decision to set a usage fee below that necessary to provide full recovery of costs of providing the service.
- A requirement for a periodic review of usage fees for the purpose of updating such fees based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
- A requirement to disclose the usage fees policy to the public.

We also recommend the City consider using the Consumer Price Index (CPI) as a basis to increase certain usage fee rates when appropriate. If adopted, this practice should be included in the comprehensive usage fee policy.

OMB recognizes the need for a comprehensive policy and is currently working with City departments to develop a Revenue Manual. The Revenue Manual would include descriptions of usage fee rates, unit prices, and dates of fee changes, and can serve as the foundation for establishing a comprehensive user fee policy.

Management's verbatim response will be included at **Appendix B**.

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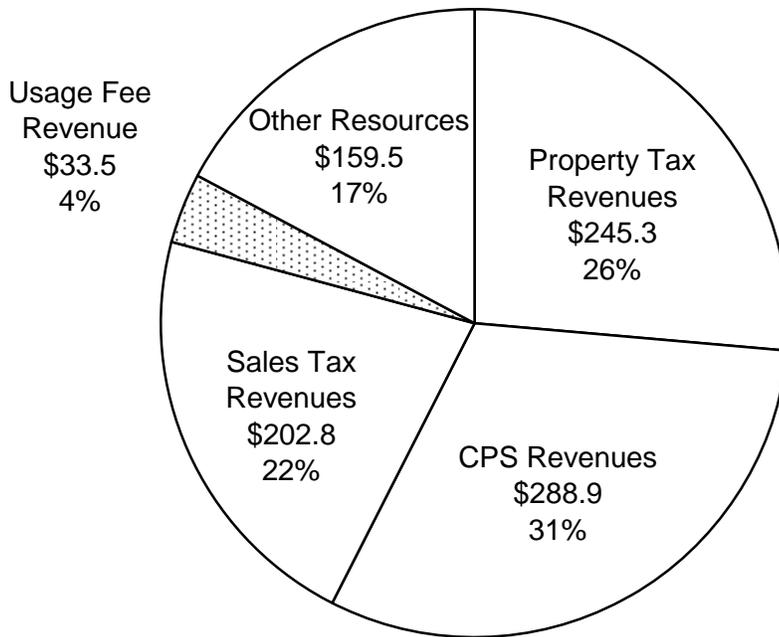
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Background

The City of San Antonio (City) charges usage fees for many different types of services, use of public facilities, and required permits. Other examples include fees to use library meeting rooms, park pavilions and athletic fields, and fees charged for services such as swimming lessons and sports leagues. Fees charged frequently do not fully cover the costs associated with providing the service or facility. Therefore, City Public Service (CPS) revenue, sales tax, and local property tax revenue fund much of the costs for these services. In addition, accounting for these costs and revenue occurs in the City's general fund.

The FY 2009 estimated general fund resources are \$929.9 million. The three principal sources of general fund revenues are property taxes, CPS revenue, and sales taxes. These three sources of revenue account for approximately \$737 million, or 79%, of total available general fund resources. The remaining source of general fund revenue comes from other resources such as business and franchise taxes, which is approximately \$193 Million, or 21%. Usage fee revenue is included in other resources and is approximately \$33.5 million, or 4% of total available general fund resources.

FY 2009 General Fund Available Resources (\$ in millions)



Audit Scope and Methodology

The audit scope consisted of usage fee revenues in the General Fund from FY 2005-2009. We did not review usage fee revenue accounted for in other City funds.

We interviewed personnel from OMB to gain an understanding of how usage fees are set and/or increased. We reviewed documents used by OMB to track historical information on usage fee revenue. We also interviewed personnel from the Finance, Economic Development, Human Resources, and other departments.

To gain an understanding of local governments' best practices in usage fee policies, we reviewed information from the Government Finance Officers Association (GFOA). The GFOA is a nationally recognized association that identifies and develops financial policies and practices. We also conducted phone interviews with other cities such as Phoenix and El Paso to obtain information regarding their policies on usage fees.

We relied on information from the SAP system for data analysis. Specifically, we obtained FY 2005-2009 expense and revenue information for general fund departments to illustrate 5-year trends. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from November 2008 to May 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate information to provide a reasonable basis for the results based on the audit objectives. We believe that the information obtained provides a reasonable basis for the results based on the audit objectives.

Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor
Theresa Cameron, CPA, CIA, Audit Manager
Buddy Vargas, CFE, Auditor-in-Charge
Rosalia Vielma, Auditor

Audit Results and Recommendations

No Formal Written Policy

Condition

The City does not have a formal written policy for setting usage fees and the recovery of costs associated with providing facilities and services such as library meeting rooms, park pavilions, athletic fields and swimming lessons.

Cause

The City emphasizes the analysis and monitoring of expenses more than usage fee revenue and cost recovery. As a result, there is less time and resources allocated for the detailed analysis and monitoring of fee generated revenues.

Criteria

In 1996, the GFOA, a nationally recognized association that identifies and develops financial policies and practices for governmental organizations, published the recommended practice titled "Setting of Government Charges and Fees" (Appendix A). In summary, the GFOA recommends governments:

1. Adopt a formal usage fee policy,
2. Calculate the full cost of providing services which provides a basis for setting the usage fee rates,
3. Periodically review and update usage fee rates based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates, and
4. A requirement to disclose the usage fees policy to the public.

We surveyed various cities to determine if they adopted formal policies or procedures for setting usage fee rates. Six out of 10 cities surveyed, including Phoenix, reported using cost recovery and/or an inflationary index such as Consumer Price Index (CPI) as a basis to increase some usage fee rates.

To illustrate the potential impact of applying the CPI to existing usage fees, we chose a sample of five current usage fees and projected future revenue for 5 years. We applied an annual CPI range of 3.18 to 3.8% to the fees. We used a 5-year moving average to project units of each fee. The analysis in Table 1 on page 5 shows a total potential revenue increase of 10.8% over the 5-year period.

Table 1

Illustration of Potential Future Revenue 2009 - 2013					
Usage Fee	Fee Last Changed	Projected Revenue- Fee Constant	Projected Revenue- CPI Increase	\$ Increase	Total % Increase
Supply Fee Youth Sports Program	2003	\$129,609	\$143,495	\$13,886	-
Youth League Participation Fee	2004	\$50,859	\$56,350	\$5,492	-
Swimming Lessons Fee	Unknown	\$214,734	\$237,792	\$23,058	-
Street Closure Fee	2003	\$74,938	\$83,033	\$8,095	-
Parking Permit Fee	2003	\$231,918	\$257,315	\$25,397	-
Total		\$702,058	\$777,985	\$75,927	10.81%
Source: OMB, SAP, US Department of Labor					

Effect

The lack of a comprehensive usage fee policy leads to inconsistent methodologies for setting fees. We noted that the Parks & Recreation department is tracking some costs associated with providing services. We also noted that some departments determine usage fee rates by surveying other cities. However, departments have not calculated the full costs to provide city services. City management and City Council do not have all the information necessary to make informed financial decisions regarding usage fee rates, such as when to raise them.

We also noted OMB has an ineffective mechanism for tracking the history of fee changes. Using fee schedules maintained by OMB, we analyzed projected FY 2009 usage fee revenues to determine when the fee rates were last changed. We reviewed 252 revenue line items designated by OMB as usage fee revenue totaling \$33,577,791. There were 97 revenue line items, or 16% of total projected revenue notated as 'unknown'. This indicates OMB was unaware of when these fees were last changed. However, OMB is currently working with departments to determine when they were last changed. See Table 2 for details of this analysis.

Table 2

Schedule of OMB Usage Fee Revenue Line Items - Year Last Changed				
Year last changed	# of Revenue line items (A)	Total Revenue (B)	% of Total Population (B) (C)	% of Total Revenue (A)/(C)
2003 and Prior	14	\$324,329	6%	1%
2004	7	\$182,271	3%	1%
2005	30	\$1,364,858	12%	4%
2006	6	\$143,576	2%	1%
2007	10	\$583,526	4%	2%
2008	38	\$5,302,859	15%	16%
2009	50	\$20,005,448	20%	59%
Unknown	97	\$5,670,924	38%	16%
Total Population	(C) 252	\$33,577,791	100.00%	100.00%
Source: OMB				

The table shows that many rates have not changed even though costs to provide services and facilities normally increase each year. It is important for management and City Council to have accurate historical information about usage fee changes and costs of services to make appropriate policy decisions regarding usage fee rates.

Recommendations

We recommend OMB work with City management and departments to develop a comprehensive usage fee policy. The following should be included in the policy:

- Information outlining the goal for cost recovery and the categorization of usage fees into various levels of cost recovery.
- A requirement to compute the full cost of services provided. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities.
- Instructions for departments to follow, including appropriate formulas and templates for the purpose of calculating appropriate costs, and the methodology used to determine cost recovery.
- A requirement to document the basis for each usage fee established to include a rationale supporting the decision to set a usage fee below that necessary to provide full recovery of costs of providing the service.
- A requirement for a periodic review of usage fees for the purpose of updating usage fees based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
- A requirement to disclose the usage fees policy to the public.

We also recommend the City use the Consumer Price Index (CPI) as a basis to increase some usage fee rates when appropriate. If adopted, this practice should be included in the comprehensive usage fee policy.

Appendix A – GFOA’s “Setting of Government Charges & Fees”

Setting of Government Charges and Fees

Background State and local governments use charges and fees to fund the provision of goods and services. Charges are voluntary payments used to finance traditional governmental services such as water, sewerage, and mass transit; recreational activities such as golf and swimming; and miscellaneous programs such as libraries, dangerous tree removal, animal shelters, school lunches, and continuing education programs. From a technical standpoint, fees are distinctively different from charges, although some may use the terms interchangeably. A fee is imposed because of a public need to regulate activities, typically related to health, safety, or other protective purposes. Fees result in the purchase of a privilege or authorization for such activities as restaurant inspections, landfill use, building permits, and marriage licenses.

According to economic theory, the most efficient use of resources is achieved if the price for a good or service is set at a level that is related to the cost of producing the good or service. In practice, governments set some charges and fees to recover 100 percent of the cost. Other charges and fees are set at levels above or below cost for various reasons, and in some cases, state or local law may restrict the amount of a charge or fee.

Recommendation The Government Finance Officers Association (GFOA) supports the use of charges and fees as a method of financing governmental goods and services. GFOA makes the following recommendations about the charge- and fee- setting process:

1. A formal policy regarding charges and fees should be adopted. The policy should identify what factors are to be taken into account when pricing goods and services. The policy should state whether the jurisdiction intends to recover the full cost of providing goods and services. It also should set forth under what circumstances the jurisdiction might set a charge or fee at more or less than 100 percent of full cost. If the full cost of a good or service is not recovered, then an explanation of the government's rationale for this deviation should be provided.

Some considerations that might influence governmental pricing practices are the need to regulate demand, the desire to subsidize a certain product, administrative concerns such as the cost of collection, and the promotion of other goals. For example, mass transit might be subsidized because of environmental concerns.

2. The full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities. Examples of overhead costs include: payroll processing, accounting services, computer usage, and other central administrative services.

3. Charges and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.

4. Information on charges and fees should be available to the public. This includes the government's policy regarding full cost recovery and information about the amounts of charges and fees, current and proposed, both before and after adoption.

Note: We obtained the above-recommended practice from the GFOA Website.

Appendix B– Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

Barry Lipton, CPA, DABFA
Deputy City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of City Usage Fees

The Office of Management and Budget Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	Comprehensive Usage Fee Policy We recommend OMB work with City management and departments to develop a comprehensive policy for usage fees. The following should be included in the policy:				
	<ul style="list-style-type: none"> • Information outlining the goal for cost recovery and the categorization of usage fees into various levels of cost recovery. 	5	Accept	Peter Zanoni, Office of Management & Budget Director	August, 2010
	<ul style="list-style-type: none"> • A requirement to compute the full cost of providing a facility or service; full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities. 	5	Accept		August, 2010
	<ul style="list-style-type: none"> • Instructions for departments to follow, including appropriate formulas and templates for the purpose of calculating appropriate costs, and the methodology used to determine cost recovery. 	5	Accept		August, 2010
	<ul style="list-style-type: none"> • A requirement to document the basis for each usage fee established to include a rationale supporting the decision to set a usage fee below that necessary to provide full recovery of costs of providing the service. 	5	Accept		August, 2010
	<ul style="list-style-type: none"> • A requirement for a periodic review of usage fees for the purpose of updating such fees based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates. 	5	Accept	Peter Zanoni, Office of Management & Budget Director	August, 2010
	<ul style="list-style-type: none"> • A requirement to disclose the usage fees policy to the public. 	5	Accept		August, 2010
	We also recommend the City consider using the Consumer Price Index (CPI) as a basis to increase certain usage fee rates when appropriate. If adopted, this practice should be included in the comprehensive usage fee policy.	5	Accept		August, 2010

9/1/2009

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Comprehensive Policy for Usage Fees Action Plan

The following is a list of items recommended by the City Auditor's Office to be included in the City of San Antonio's Comprehensive Policy for Usage Fees. Following each item is included a short description of the actions that will be taken by the Office of Management and Budget (OMB) in the development of this written policy.

City Auditor Recommendation 1: Policy will include information outlining the goal for cost recovery and the categorization of usage fees into various levels of cost recovery.

OMB Response

Working with City Departments that have usage fees, the Office of Management and Budget will research best practices for defining the City's goal for cost recovery for inclusion in the Comprehensive Policy for Usage Fees. Based on City Council Policy Direction and input from the City Manager as well as Department Heads, all usage fees will be categorized. These categories will be based on the nature of the service provided, the population served, and the intended impact to the community. Possible recommended usage fee categories include:

- Fees/Fines/Rates: Revenues leveraged to influence certain outcomes within the community. Examples include Code Violation Fines, Parking Fees and Swift Water Rescue Fees.
- Basic City Services: Revenues generated with minimal direct charge for service. Examples include Police, Fire and Library Services.
- User Driven Services: Revenues generated by providing specific populations with varying level of charges for service to ensure health and public safety and to provide individual benefit. Examples include facility rentals and health inspection services.
- Targeted Populations Services: Revenues generated by providing services with minimal charge based on a group or individual's ability to pay. Community-wide benefit obtained from the service also taken into consideration when charging these services. Examples include after school youth and senior programs.

City Auditor Recommendation 2: Policy will include a requirement to compute the full cost of providing a facility or service; full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities.

OMB Response

The Office of Management and Budget will work to define in the Comprehensive Policy those costs that reasonably can be associated with and allocated to a particular service and corresponding usage fee. These include the costs that are generally treated as direct (costs that can be readily and specifically identified with a particular fee relatively easily with a high degree of accuracy) and indirect (costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular service or fee).

City Auditor Recommendation 3: Policy will include instructions for departments to follow, including appropriate formulas and templates for the purpose of calculating appropriate costs, and the methodology used to determine cost recovery.

OMB Response

The Office of Management and Budget will include in the written policy general instructions and example methodologies that can be used to determine cost recovery. As user fees may differ based on the to-be-identified fee categories as well as other factors, a more in-depth analysis with specific templates and calculations also will be provided outside the general written policy for particular user fees. This more in-depth cost calculation analysis again will be based on the nature of the service provided, the population served, and the intended impact to the community.

City Auditor Recommendation 4: Policy will include a requirement to document the basis for each usage fee established to include a rationale supporting the decision to set a usage fee below that necessary to provide full recovery of costs of providing the service.

OMB Response

The Office of Management and Budget will include in the written policy document a requirement for departments to document the basis for each usage fee established.

City Auditor Recommendation 5: Policy will include a requirement for a periodic review of usage fees for the purpose of updating such fees based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.

OMB Response

The Office of Management and Budget will include in the written policy document a policy requiring departments to periodically review their usage fees based on specific factors.

City Auditor Recommendation 6: Policy will include a requirement to disclose the usage fees policy to the public.

OMB Response

Once written and approved, the Office of Management and Budget will ensure public access to the Comprehensive Policy for Usage Fees. The Policy will be posted on the City's Office of Management & Budget Website, sections will be included in the Adopted Budget Document, and copies will be made readily available should the public request copies of the written policy.

City Auditor Recommendation 7: Policy will include using the Consumer Price Index (CPI) as a basis to increase certain usage fee rates when appropriate.

OMB Response

Whenever possible, the Office of Management and Budget will use the Consumer Price Index to increase usage fee rates on an annual basis. Best practice research will be completed in order to determine whether the national, regional, or local CPI should be used in computing user fee increases. In addition, a comprehensive review of all City revenues will be completed in order to develop criteria/parameters that can be used when requiring the use of annual CPI increases for usage fee increases.

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Peter Zanolini
Director
Office of Management and Budget



Sheryl Sculley
City Manager
City Manager's Office