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CLARK COUNTY
WASHINGTON

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Department of Community Development
Review of Planning and Development Fees

Clark County Auditor's Office
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EXECUTIVE SUMMARY

OBJECTIVES AND SCOPE

The objective of this review was to analyze actions the Department of Community Development has taken in response to the 2000 performance audit's recommendations related to its fee-setting processes. This report encompasses DCD's implementation of planning and development fees charged for activities of the department's Development Services and Engineering divisions. Building Division fees (e.g., fees for building permits) are subject to a separate fee-setting process, analysis of which was beyond the scope of this report. The review's methodology is discussed separately in the body of the report.

COST-OF-SERVICE FEES: PROGRESS, BUT IMPROVEMENTS NEEDED

The 2000 performance audit recommended that fees for processing major applications be based on DCD's costs of doing the work. In response, DCD established 7 fees on this "cost-of-service" basis for 2003. Cost-of-service fee amounts were calculated using average processing costs for each type of application. These fees accounted for a significant portion of total planning and development fee revenue in 2002—approximately one-third of the \$3 million total.

- Four of the seven cost-of-service fees were incorrectly computed for the 2003 fee year, because projects included in the average cost calculation were not all of the same type. The financial impact of these errors is small because the resultant fees were in some cases too high and, in others, too low.
- DCD needs to expand its analysis and implement a quality assurance process to ensure that the costs of projects used to calculate fees are reasonable and accurate. We found that several of the incorrectly included projects stood out because they were substantially higher or lower than other costs included in the fee calculation.

POOLED FEES: QUALITY ASSURANCE NEEDED OVER CALCULATIONS

DCD has 194 planning and development fees in total. Seven of these are cost-of-service fees, and the remaining 187 are grouped together or “pooled” for fee-setting purposes. Pooled fees are raised or lowered on an across-the-board basis. For 2003, a 9.87% increase was applied to the group. We have two concerns over the pooled fee calculation.

- DCD did not adjust the 2003 pooled fee calculations for the revenues and costs associated with cost-of-service fees—the fees that were no longer part of the pool. Since the revenues and costs associated with cost-of-service fees are substantial (about one-third of total fee revenue in 2002), the effect on pooled fees can be expected to be material.¹ The effect of erroneously including cost of service related costs and revenues in the 2003 pooled fee calculation would be to understate the pooled fee increase.
- DCD’s 2003 pooled fee update also included an arithmetic error. Without this error, the 2003 fee increases would have been 10.97 % rather than the 9.87 % adopted.

OPERATING RESULTS CAN BE USED TO MEASURE PERFORMANCE

The Board of County Commissioners’ policy is for DCD to set fees at the level necessary to recover 90% of costs that are related to planning and development fees.

- DCD has not established a performance measure (actual revenues compared to actual costs for the current fee period) that reports the degree to which its process carries out this cost recovery policy. For example, in 2002 DCD fell short of recovering 90% of costs by about \$523,000.²

¹ The total impact depends on the amount of revenues and costs ascribed to cost-of-service fees. This report concludes that DCD needs to take additional measures to assure the accuracy of those costs. Without this assurance, an accurate pooled fee increase cannot be reliably calculated.

² Data available through August 2003 indicates DCD may be closer to meeting the BOCC goal in 2003.

- Similarly, DCD's fee update process does not include a presentation that identifies and explains the difference between the current year's actual operating results and revenue and cost assumptions for the upcoming fee year that are used in fee increase calculations. This type of comparison can serve to test the reasonableness of DCD's assumptions, providing a more complete basis for evaluating recommended fee increases.

RECOMMENDATIONS

Much of the difficulty associated with the 2003 fee calculation is a result of the quality and relevance of data used. Several of our recommendations are intended to ensure better quality in the future.

Cost-of-service fees

We recommend that the Development Service Division and other knowledgeable staff review projects used to calculate cost-of-service fees to ensure that

- the project is the right type for the fee being calculated; and that
- project costs are reasonable and accurate. DCD should also assure that workorder numbers are correctly assigned.

Pooled fees

We recommend that DCD

- exclude cost-of-service fee revenues and costs from calculations of pooled fee increases or decreases; and
- establish a process to assure calculations are accurate and that appropriate adjustments are made.

Performance measures for the fee-setting process

We recommend that DCD

- establish performance measures that compare the extent to which each year's operating results (actual costs compared to actual revenues) are successful in carrying out the Board's cost recovery policy; and that their
- annual fee update include a comparison of actual revenue and cost data to the revenue and cost assumptions used in pooled fee calculations, with significant differences highlighted and explained. For example, the effect of

changes in fee volumes and fee types (product mix) should be considered and disclosed as part of the fee update discussion.

Department of Community Development Comments

DCD reviewed a draft of this report and provided written comments, which are published in Appendix E. DCD agreed with the report's recommendations and has proposed a plan for their implementation.

**Clark County Internal Audit Department
Department of Community Development: Review of Development Services
and Planning Fees**

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BACKGROUND

The December 2000 performance audit of the Department of Community Development found that customers thought DCD's planning and engineering fees were too high, and did not understand how the fees were established. A follow-up random survey, conducted in December 2002, indicated that customer satisfaction with fees had not improved since the performance audit.

The 2000 performance audit recommended that DCD establish a cost accounting system that would allow the actual costs incurred for work on a project to be charged as the fee for that project. The recommendation applied to major projects; the performance audit recommended using a cost pool to establish an average cost as the basis for fees for minor projects.

This report focuses upon the 194 planning and development fees set by DCD for use in 2003. The 2003 fee-setting process resulted in 7 fees set on the basis of actual cost (cost-of-service). The new cost-of-service fees all related to major projects, such as subdivisions, short plats, and site plan reviews. (See Appendix A for a list of the specific fees involved.)

After establishing the cost-of-service fees for 2003, the remaining fees were "pooled" and raised by 9.87% on an across-the-board basis. Prior increases were

- 59.7%, which became effective on 4/1/02, and an
- 11.7% surcharge, which was in effect from 11/15/99 through 3/31/02. (The surcharge was removed upon adoption of the 59.7% increase.)
- Prior to these timeframes, selective (rather than across-the-board) increases and other changes to individual fees became effective on 1/1/98.

Revenue from the 7 fees that were set upon a cost-of-service basis was approximately \$1 million¹ in 2002, or one-third of the \$3 million total revenue generated by planning and development fees. The remaining \$2 million was attributable to the 187 "pooled" fees.

Objectives, Scope, and Methodology

The objective of this review was to analyze actions DCD has taken in response to the 2000 performance audit's recommendations related to DCD's fee-setting processes. This report encompasses DCD's implementation of planning and development fees charged for activities of the department's Development

¹ The Permit Plan database was accessed to identify the revenue associated with each transaction involving a fee that was converted to a cost-of-service basis for 2003.

Services and Engineering divisions. Building Division fees (e.g., fees for building permits) are subject to a separate fee-setting process, the analysis of which was beyond the scope of this report.

The review's methodology involved analyzing documents from the December 2000 performance audit, including documents pertinent to actions taken by DCD in response to that audit. The methodology also involved analyzing information from DCD's Permit Plan database and data used by DCD and its consultant to establish cost-based and other fees for 2003.

To determine whether the average costs developed for each type of cost-based fee were accurate, data from the cases (projects) used to calculate an average cost per application were traced back to the Permit Plan database. This enabled us to verify whether the cases had been correctly included in the calculation.

The average cost per case developed by DCD includes the cost of salaries for DCD staff that worked on the individual projects. It was not practical for us to verify the accuracy of the amount of time that DCD staff charged to these projects.

During the conduct of this review, fee issues were discussed with DCD's director, finance manager, and the managers of the Development Services and Engineering divisions. DCD reviewed and commented upon a draft of this report, and changes based upon those comments have been incorporated.

What the Department Of Community Development Did In Response To the 2000 Performance Audit's Findings

In order to address the 2000 performance audit's findings, DCD hired a consulting firm, interviewed stakeholders, and held several public input meetings. Stakeholders and customers specifically commented that they would like to have additional information on how fees are established.

Cost-of-service Fees

DCD analyzed the 2000 performance audit's recommendation to charge the actual processing costs incurred as the fees for each major application. DCD concluded that this would be expensive, labor and technology intensive, and would require a substantially more extensive accounting system. Additionally, it would increase unpredictability for customers, in that fee amounts would not be known at the beginning of the project.

Consequently, DCD developed an alternative methodology based upon using actual costs incurred in processing a group of applications of the same type—for example, reviewing a plan for a subdivision—to calculate an average cost per application. DCD then used this cost-based average as the basis for recommending changes to established fees.

Other Fees (“Pooled Fees”)

The 2000 performance audit recognized that many of DCD’s fees cannot be set on a cost-of-service basis because of workload constraints and unavailability of sufficient cost data. DCD “pools” these fees, and raises or lowers them on an across-the-board basis. Observations regarding DCD’s methodology for establishing the across-the-board fees are addressed later in this report.

Fee Consolidation

The 2000 performance audit recommended that DCD undertake an initiative designed to simplify its fee structure by consolidating or eliminating fees. In 2001, DCD’s consultant observed that Clark County had 242 development fees. In 2002, 223 fees were in effect—and that number was reduced to 194 for 2003. The reductions are largely the consequence of a targeted effort to consolidate fees in 2001, and DCD’s 2002 initiative to establish fees on a cost-of-service basis.

COST-OF-SERVICE FEES: DCD HAS MADE PROGRESS TOWARD USING ACTUAL COSTS TO ESTABLISH FEES, BUT IMPROVEMENTS NEED TO BE MADE

The 2000 performance audit called for setting fees on cost-of-service basis. DCD adopted one fee based upon cost-of-service in 2002², and seven in 2003. Most of these new fees were substantial increases or decreases from prior fees.

The 2003 fees were based upon average processing costs associated with specific fee types. The average costs were calculated from cost data collected from applications processed during the January 2001 through June 2002 period. DCD recommended, and the BOCC adopted, fees directly based upon these average processing costs.

² The fee for pre-application conferences was set upon a cost-of-service basis for 2002, but was set upon a “pooled” cost basis for 2003.

Observations Related to the Groups of Cases Used to Calculate Cost-of-Service Fees

Average costs for four of the 2003 cost-of-service fees were computed incorrectly because cases representing the wrong type of fee were included in the group from which the average was calculated. This occurred because an incorrect workorder number was assigned to some cases.

In order to determine the revenue impact of the incorrect fees, we accessed the Permit Plan database and determined that these fees had been charged in 58 cases as of August 20, 2003. We calculated that \$28,690 additional revenue would have been generated if the correct fees had been charged for this 8 month period. The specific impact on individual fees was as follows:

- The group of 31 cases for the fee related to the preliminary review of Type I commercial site plans incorrectly contained 9 Type II and III cases. The net effect was that the fee would have been \$600 lower if all cases had been correctly included. (Adopted \$2,008: Corrected \$1,408)
 - Examples of cases incorrectly included in the Type I sample are the Hazel Dell Town Center and Hazel Dell Elementary School, both classified as Type III's in the Permit Plan database.
- The group of 51 cases for the fee related to the preliminary review of Type II commercial site plans incorrectly contained 9 Type I cases. The net effect was that the fee would have been \$338 higher. (Adopted \$4,342: Corrected \$4,680)
- The group of 42 cases for the fee related to the preliminary review of subdivision plans incorrectly contained 9 cases that Permit Plan identifies as short plats. The net effect was that the fee would have been \$940 higher. (Adopted \$5,967: Corrected \$6,907)
- The group of cases used to calculate the short plat preliminary review fee incorrectly excluded the 9 cases which (as noted above) had been included in the subdivision category. The net effect was that the fee would have been \$27 lower. (Adopted \$2,607: Corrected \$2,580)
- Our review indicated that the cases used for establishing the remaining three cost-of-service fees had been correctly included in the calculations.

Other Observations: One Incorrectly Included Project Can Substantially Effect a Cost-of-service Fee

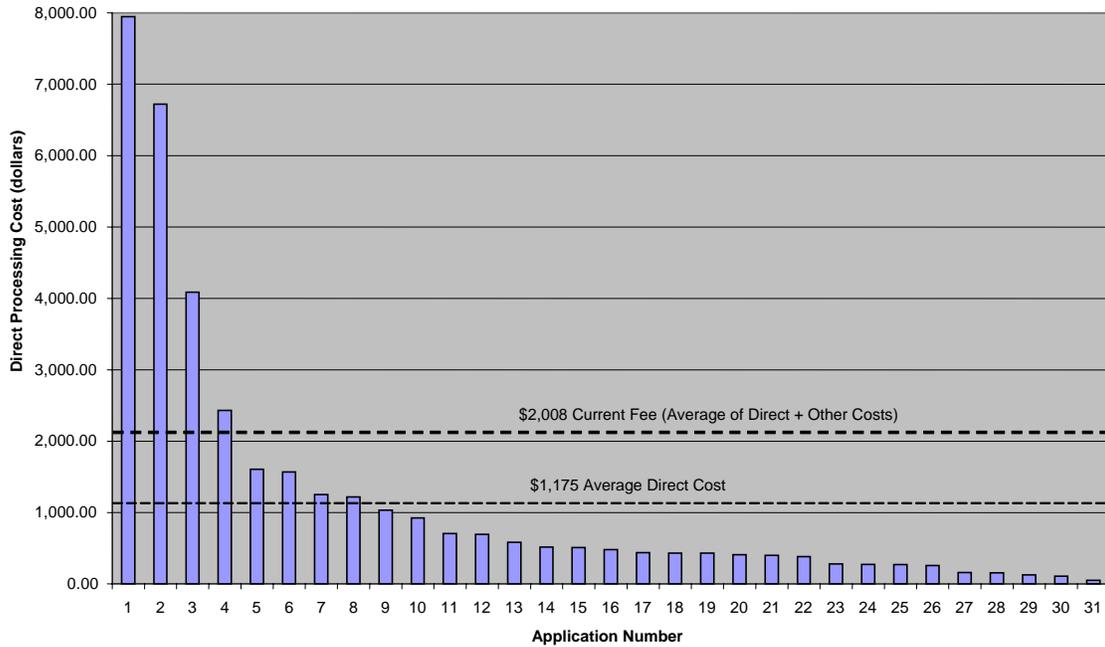
The group of cases used for the 2003 fee update were relatively small, ranging from a low of 19 cases for the Short Plat Final Review fee to a high of 51 cases for the Preliminary Site Plan Review--Commercial Type II fee.³

Because of the small group size, any case involving extraordinarily large (or small) costs could have a significant impact upon the average cost per case. Several of the groups had a distribution with cases at these extremes. For example, the 31-case group used to establish the Preliminary Site Plan Review—Commercial Type I fee is charted below.

The chart shows that the two most costly projects—(Hazel Dell Town Center--\$7,950 and Hazel Dell Elementary--\$6,720, both of which were misclassified and incorrectly included in the sample) are far above the average. Excluding the highest cost project in the sample would decrease the fee by about 19% (\$385).

³ Exception: data were available for 94 Pre-application Conference cases during the 2002 fee update, and for 266 cases during the 2003 update.

**Processing Cost of Each Application in Sample
(Preliminary Site Plan Reviews: Commercial I)**



Note: The chart above shows the distribution DCD used to set the 2003 fee. As previously noted, several of the applications were incorrectly included in the sample. A chart showing the corrected sample is in Appendix D.

The chart also shows that the direct cost of 23 of the 31 projects is below the average direct cost. Also, the direct cost of 27 projects is below the adopted fee of \$2,008. The range of direct costs shown in the chart is wide—from a low of \$50 to a high of nearly \$8,000.

DCD, in establishing 2003 fees, examined the extent to which project size and characteristics such as square footage were related to processing cost. The results of this analysis were factored into decisions regarding fee type. The chart demonstrates the necessity of additional analysis. This would include examining the extremes of the distribution to determine whether the projects involved are anomalies and should be treated separately for fee-setting purposes or should be excluded for other reasons (e.g., misclassification, as was the case for the most costly projects in the above distribution).

The wide range shown in the table above is not unique. Appendix D shows that samples (after correcting for misclassification errors) for four cost-of-service fees also ranged from a low of \$20 to highs in the thousands of dollars.

Other Observations: Cost-of-service Fees Can Vary Substantially from Year-to-year

Clark County's experience with Pre-application Conference fees demonstrates that, even with relatively large samples, the average processing cost can differ substantially from year-to-year. For the 2002 fee year, the average cost calculated from a 94 case sample was \$678. For 2003, the average cost was \$960, based upon a 266 case sample.⁴

For 2003, the BOCC chose to adopt pre-application conference fees that varied from the calculated average costs. A fee of \$610 was set for 2002 and \$670 for 2003. By so doing, the BOCC avoided a problem that might occur in the future for other cost-of-service fees—large annual increases or decreases, with customers paying substantially different amounts for the same service in adjacent years. Potentially, fees will be less volatile after additional years of data collection and average costs are based on larger numbers of cases.

DCD NEEDS TO REFINE ITS PROCESS FOR CALCULATING CHANGES TO POOLED FEES

For 2003, DCD placed all fees which were not established on a cost-of-service basis ("pooled fees") into one group and calculated a 9.87% increase that was applied across-the-board. The goal of this process is to set fees at the level necessary to carry out the BOCC's policy to recover 90% of costs.

We found that DCD's fee-setting process could be improved by

- Eliminating revenues and costs associated with cost-of-service fees from calculations of pooled fee increases.
- Checking to find arithmetic errors.
- Preparing a table that compares actual costs and revenues to the fee update's cost and revenue assumptions, and explains significant differences.
- Establishing a performance measure that compares operating results to BOCC cost recovery policy.

DCD Did Not Exclude Costs and Revenues Associated with Fees no Longer in the Pool

⁴ The 2003 sample included the 94 cases from the prior year. DCD plans to build up the sample sizes used to establish cost-of-service fees by accumulating cases over a several year period. DCD expects that the larger sample sizes will lead to more a more representative average cost and fee.

We found that DCD did not adjust the 2003 pooled fee calculations for the revenues and costs associated with cost-of-service fees—fees which were no longer part of the pool. As shown in the table below, a corrected calculation shows a significant impact—a 30.4% fee increase, rather than the 9.87% that DCD recommended.⁵

It should be noted that since actual fee revenues (through August 2003) are proving to be greater than expected, the smaller fee increase may be adequate to carry out the BOCC’s cost recovery policy for the current year. In the long run, however, a corrected fee-setting process should increase the probability of accurate cost recovery.

TABLE

2003 POOLED FEE INCREASE IF BASED ON ELIMINATION OF COST-OF-SERVICE (COS) FEE IMPACT

A. Pooled fee revenues after subtracting revenues associated with fees which have been converted to a cost-of-service basis	\$2,128,842
B. Pooled fee costs after subtracting costs associated with fees converted to a cost-of-service basis	<u>(2,775,885)</u>
C. Excess cost to be covered by 2003 pooled fees (B-A)	(647,043)
D. Pooled fee increase necessary to cover 2003 costs (C/A)	30.4%

The possible revenue consequences of a 30.4% increase compared to 9.87% are obviously substantial. Pooled fees generated about \$2,000,000 in revenue in 2002. Assuming the same revenue base for 2003, a 30.4% fee increase would equate to an additional \$608,000. The adopted 9.87% increase would equate to \$197,400—a difference of \$410,600.

DCD Calculations of the 2003 Pooled Fee Increase Included an Arithmetic Mistake

We found that DCD does not currently have a process which independently checks fee update calculations for reasonableness and accuracy. Such a

⁵ See Appendix B for this calculation in more detail.

process would be helpful in avoiding the errors related to cost-of-service fees described previously, and the arithmetic error described below.

DCD erroneously used gross costs totaling \$3.5 million, rather than the \$3.14 net cost⁶ amount to calculate the 2003 fee increase. If the error had been identified and corrected, the recommended fee increase would have been 10.97% rather than the 9.87% that was adopted. (Appendix C shows this calculation in detail.) If pooled fees generate \$2,000,000 in revenue in 2003—as they did in 2002—the effect of this error equates to a revenue reduction of \$22,000.

DCD should Use Operating Results to Measure Performance and to Test the Reasonableness of Assumptions Used in the Fee Update

The BOCC's stated policy is for DCD to set fees at the level necessary to recover 90% of costs that are related to planning and development fee activity. We found that DCD has not established a performance measure that reports the degree to which its process carries out the BOCC's cost recovery policy.

The primary performance measure related to this goal is a comparison of operating results—the actual revenues generated and actual costs incurred—to BOCC cost recovery policy. For example, in 2002 DCD fell short of recovering 90% of costs by about \$523,000. As stated previously, data available through August 2003 indicates DCD will be closer to meeting the BOCC goal in 2003.

Similarly, DCD's fee update process does not include a presentation that identifies and explains the difference between actual operating results and revenue and cost levels used in fee increase calculations. This type of reasonableness test can serve to identify mistakes, as well as to provide a more complete basis for evaluating recommended fee increases.

For example, the previously discussed \$3.5 million amount mistakenly used to calculate the 2003 fee increase is about \$500,000 more than actual revenue generated in 2002. We believe that if a comparison with actual operating results had been made, the arithmetic mistake would have been identified and corrected.

RECOMMENDATIONS

Cost-Of-Service Fee Recommendations

⁶ Net costs are calculated by reducing gross costs for the 10% General Fund support approved by the BOCC.

We recommend that the BOCC consider phasing in any extraordinarily large fee changes that are the result of the averaging process used to estimate cost-of-service fees. This approach would allow time for additional cost data to be gathered and included in cost-of-service averages. It would also allow time for DCD's fee-setting methodology to be refined.

We recommend that DCD immediately review its procedures and make changes to assure workorder numbers are correctly assigned.

We recommend that DCD, as part of the 2004 fee update:

- review the cases in the samples used to establish new fees to assure that the cases have been correctly included. The projects these cases represent and associated costs should be identified to Development Services Division staff in order to obtain input regarding reasonableness and accuracy—including a review of unusually low-cost and high-cost cases to assure that reported costs are reasonable for the type of project involved.
- review extremely high-cost and low-cost cases to determine whether the projects involved are of a type that is unlikely to reoccur in the future. If so, consideration should be given to excluding the cases from the calculation of an average cost to be used as a fee for future projects.
- review to determine whether the size of projects in the sample encompasses the range that can be expected in the future. For example, if substantially larger projects can be expected, consideration should be given to limiting any flat fee that is established to the size of projects that were included in the sample.

Pooled Fee Recommendations

In preparing annual fee updates, we recommend that DCD provide the BOCC with a calculation for pooled fees that

- excludes revenues and costs attributable to cost-of-service fees from the calculation.
- compares actual revenue and cost data to the revenue and cost assumptions used in pooled fee calculations—and explains significant differences. To the extent that fee calculations are done before year end, annualized actual costs and revenues should be used. Consideration should be given to tracking revenues and costs by month so that annualization can take seasonal variation into consideration.

- has been independently checked to assure calculations are accurate.

Performance Measure Recommendations

We recommend that DCD

- establish performance measures for the fee-setting process. Specifically, establish a measure that quantifies operating results (actual costs incurred and revenues generated) and reports how effective the fee-setting process was in carrying out the BOCC's cost recovery policy.
- compare current year operating results to those from prior years. Trends and significant changes should be analyzed and reported.

APPENDIX A

FEES ESTABLISHED ON A COST-OF-SERVICE (COS) BASIS FOR 2003⁷

<u>Fee Type</u>	<u>2002 Fee</u>	<u>2003 COS Fee</u>	<u>% Change</u>
Short Plat Preliminary Review	\$4,515	\$2,607	- 42.2%
Short Plat Final Review	1,317	518	- 60.7%
Subdivision Preliminary Review	10,738	5,967	- 44.4%
Subdivision Final Review	3,699	467	- 87.4%
Preliminary Site Plan Review			
Commercial Type I	351	2008	+ 472.1%
Commercial Type II	6165	4342	- 29.6%
Final Site Plan Review			
Commercial Type II	699	2130	+204.7%

Note: the fee for pre-application conferences is not included in the above table. The fee was set upon a cost-of-service basis and was effective for the last 9 months of 2002. However, the fee was not set upon a cost-of-service basis for 2003. It was included in the pooled fees grouping, and was subject to the uniform 9.87% increase for 2003.

⁷ Effective January 1, 2003

APPENDIX B

**2003 POOLED FEE INCREASE AFTER ELIMINATION OF COST-OF-SERVICE
FEE IMPACT⁸**

	<u>DCD's 2003 Fee Calculation</u>	<u>Eliminate Cost-of-Service</u>	<u>Adjusted Pooled Fee Amounts</u>
A. Revenue:	\$3,142,468	(\$1,013,626)	\$2,128,842
B. Cost	(3,487,184)	711,299	<u>(2,775,885)</u>
C. Excess cost to be covered by 2003 pooled fees			(\$647,043)

Fee Increase after adjustments (C/A) 30.4%

⁸ All numbers in the table are net of the 10% General Fund support

APPENDIX C

CORRECTED CALCULATION OF 2003 FEE INCREASE USING NET COSTS

A.	2002 cost estimate (gross costs) ⁹		\$3,491,631
B.	90% of 2002 cost estimate (net costs) ¹⁰		\$3,142,468
C.	2003 cost increase estimate (gross cost increase)		\$383,018
D.	90% of cost increase expected in 2003 (net cost increase)		\$344,716
2003 fee increase as calculated by DCD (D/A)		=	9.87%
2003 fee increase corrected calculation (D/B)		=	10.97%

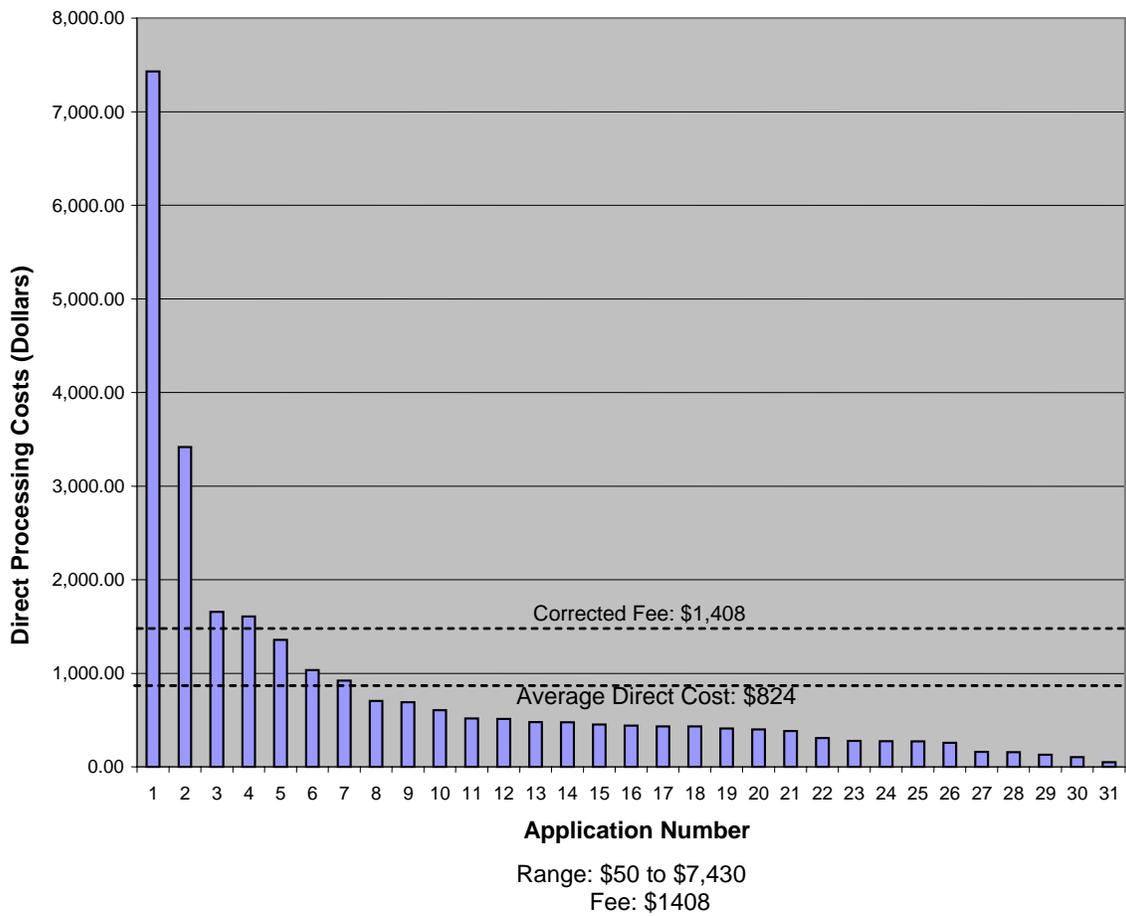
⁹This is the amount of cost that the 2002 fee revenue was expected to cover, before the 10% General Fund support reduction.

¹⁰ These are the total amount of costs to be recovered by fees, as determined by BOCC policy to provide 10% General Fund support.

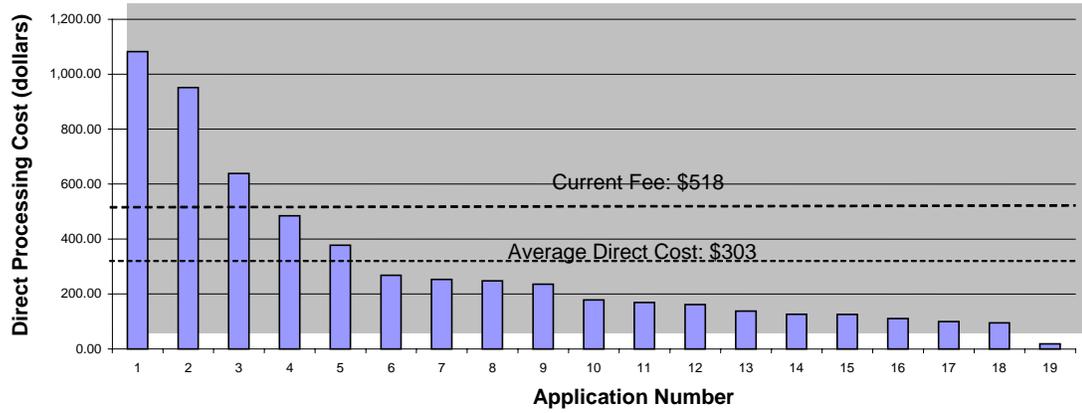
APPENDIX D

DIRECT PROCESSING COSTS OF APPLICATIONS USED TO SET 2003 COST-OF-SERVICE FEES

Preliminary Reviews: Commercial I Site Plans
(Corrected Fee)



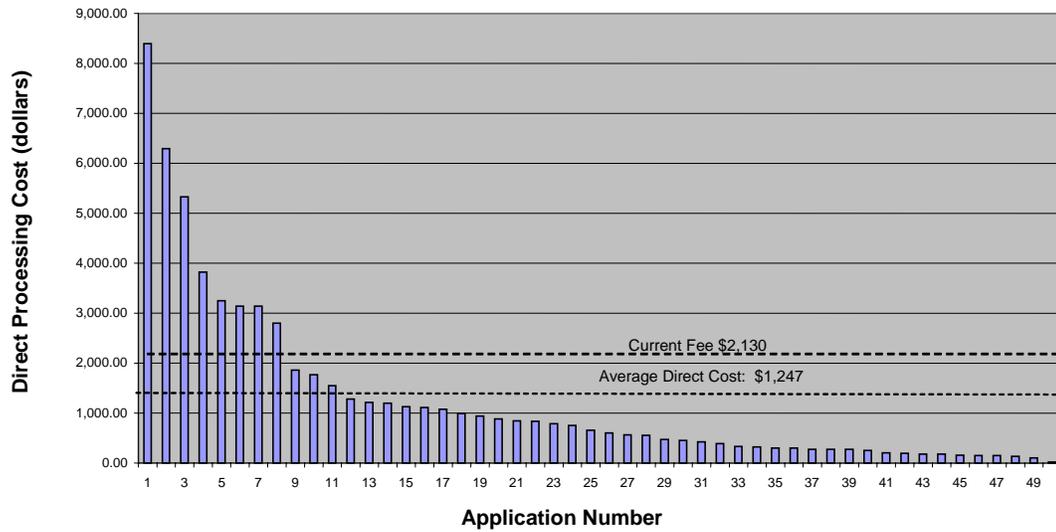
Final Reviews: Short Plats



Range: \$18 to \$1,083

Fee: \$518

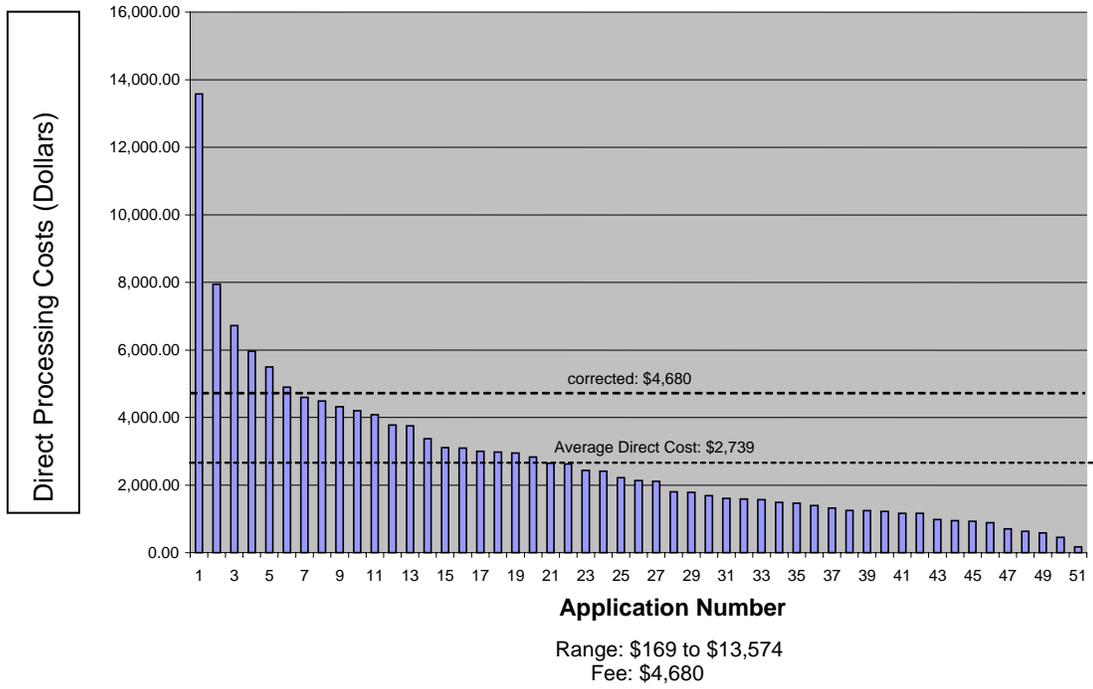
Final Reviews: Commercial II Site Plans



Range: \$20 TO \$8,392

Fee: \$2,130

**Preliminary Reviews: Commercial II Site Plans
(Corrected Fee)**



COMMUNITY DEVELOPMENT DEPARTMENT COMMENTS

Summary Response

As directed by the 2000 Performance Audit by Citygate, Clark County Community Development (CD) has implemented a new system for calculating and processing fee changes. There have been two such updates and only the most recent update included multiple fees updated on a cost-of-service basis. As with any new system, there will be a learning curve in the first few attempts. The Clark County Auditor's Office's review of this process is an important step in improving the system.

The department appreciates the work done by the Clark County Auditor's Office (AO) to evaluate the fee setting process. We realize that a performance audit's recommendations differ from a financial audit performed by the State Auditor's Office in that they constitute suggestions intended to improve a process. The department is interested in making improvements to our process.

The AO's observations have discovered some errors that we would not want to continue into subsequent fee setting cycles. We will make changes to correct affected areas which will ensure the quality of the fee process and calculations. In addition, the AO has reinforced some of our assessments; most notably to account for the impact that cost-of-service fees have on pooled fees and, once enough history is available, to use that history to gauge the performance of the fee setting process and any impact that may have on the existing process.

Response on Recommendations

This section will cover each of the AO's recommendations and CD's response.

1. Recommendations: Cost-of-Service Fees
 - a. *"that the BOCC consider phasing in any extraordinarily large fee changes."* CD sees this as a policy question that can be raised with the BOCC, should the 2004 fee process produce any extraordinarily large fee changes.
 - b. *"DCD immediately review its procedures and make changes to assure workorder numbers are correctly assigned."* CD fully concurs with this recommendation. We have already started

examining our procedures to include a second check by staff to document when workorder numbers get assigned incorrectly.

- c. *“DCD, as part of the 2004 fee update.”*
 - i. *“review the cases in the samples used to establish the new fees to assure that the cases have been correctly included.”* CD fully concurs with this recommendation and will conduct the recommended review.
 - ii. *“review extremely high-cost and low-cost cases to determine whether the projects involved are of a type that is unlikely to reoccur in the future”.* CD will be examining all cases used in the cost-of-service fee calculations to ensure that the cases are representative.
 - iii. *“review to determine whether the size of the projects in the sample encompasses the range that can be expected in the future”.* From a financial standpoint, CD agrees with this recommendation; however, it may need further policy discussion. This recommendation would likely lead to additional fee categories which is counter to 2000 Performance Audit recommendations to reduce fee categories.

2. Recommendations: Pooled Fees

- a. *“exclude(s) revenues and costs attributable to cost-of-service fees from the calculation”.* CD agrees with the AO’s recommendation. This recommendation was discussed with AO staff early in the study. CD Staff has reviewed the calculation done by the AO and feels that the calculation is representative of the range of the issue.
- b. *“compare(s) actual revenue and cost data to the revenue and cost assumptions used in pool fee calculations – and explains significant differences. To the extent that fee calculations are done before year end, annualized actual costs and revenues should be used. Consideration should be given to tracking revenues and costs by month so that annualization can take seasonal variation into consideration”.* CD agrees that a comparison of actuals to assumptions is a valuable tool and that where these vary from budget, it should be further examined to ensure that all three are in line. In the past, this kind of analysis on the revenue side would have been of marginal value due to the timing of fee implementation.
- c. *“has been independently checked to assure calculations are accurate”.* CD fully concurs with the AO and will be requesting assistance from other County departments for this independent check.

3. Recommendations: Performance Measures

- a. *“establish performance measures for the fee-setting process. Specifically establish a measure that quantifies operating results (actual costs incurred and revenues generated) and reports how effective the fee-setting process was in carrying out the BOCC’s cost recovery policy”*. CD agrees and since meaningful history on this subject is now becoming available plans to monitor the success of the fee setting process.
- b. *“compare current year operating results to those from prior years. Trends and significant changes should be analyzed and reported”*. CD will do this where it is useful. This kind of analysis is already performed by the AO’s quarterly report to the BOCC and as a part of the biennial budget process.

Action Items by Community Development

In response to the AO’s comments and recommendations, CD’s initial plans for future fee update processes include:

1. Forming a financial review group that will review and perform quality control on the calculations and comment on methodological choices performed by CD financial staff. Invitees to this group will include staff from the Auditor’s Office and the Budget Office. In addition, a Department Finance Manager and/or Treasurer’s Office staff person may be added to the invitee list.
2. Forming an internal CD review group to review and perform quality control on to the structure of the fee table. In addition, they will review the cases used in the cost of service fee calculation to ensure that representative cases are used and comment on potential changes to fee structures. Invitees to this group will include staff from the Development Review group, the Development Engineering and Inspection group, Building Service group, CD Administration, and Tidemark technical staff.
3. Since the 2004 fee update will be the first one where past performance can be effectively evaluated, initiate a process of comparing past actual financial experiences to assumptions used in the fee process and/or budgeted figures. Results of the analysis will be forwarded to the County Administrator and the BOCC.
4. When calculating the pooled fees, provide the BOCC with information on the impact of removing cost of service fees from the calculation.