

**Department of Sustainable Development
Neighborhood Enhancement Division**



Cost-of-Service Report

April 21, 2022

Final Report

Prepared for:
City of Gainesville
Department of Sustainable Development
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City of Gainesville
Neighborhood Enhancement Division
Cost-of-Service Analysis

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Table of Contents

Section	Page
1 Introduction	1
1.1 Project Background	1
1.2 Abbreviations and Terms	2
2 Approach and Work Performed	3
2.1 Work Performed	3
2.2 Taxes Versus Fees	4
2.3 Cost Versus Price	4
2.4 Position-Specific Hourly Rate Calculations	5
2.5 Indirect Costs	5
3 Cost-of-Service Findings	7
3.1 Neighborhood Enhancement Division Overview	7
3.2 Neighborhood Enhancement Division Technical Findings	7
3.3 Residential Rental Unit Program	8
3.4 Summary of Technical Findings	9
3.5 Proposed Fee Changes	10
3.6 Personnel Considerations	11
3.7 Formal Fee Updates	11
3.8 Summary of Recommendations	13
4 Cost Model Overview	14
4.1 Department Fees and Charges Cost Model Framework	14
4.2 Updates to the Cost Model	16
Appendix A: Cost Model	17

**Table i: Version History of the Report**

Version	Delivered Date	Update Reason
V1.0	March 15, 2022	BerryDunn delivered the first draft of the project report to the City Project Management Team (PMT) for review and acceptance.
V2.0	March 29, 2022	BerryDunn reviewed the second draft of the project report with the City PMT incorporating desired changes and feedback.
Final	April 21, 2022	BerryDunn presented the final version of the project report to the City PMT and City Commission.

1 Introduction

This section of the report provides a high-level background of the project, as well as key terms and their definitions.

1.1 Project Background

The City of Gainesville (City) retained Berry Dunn McNeil & Parker, LLC (BerryDunn) to conduct a Neighborhood Enhancement Division (Division) Cost-of-Service project. The focus of the project is reviewing all revenue generated from fees for permits, inspections, and services provided by the Division and the identified expenses associated with providing all Division services. This review will allow the City to make informed policy decisions at the aggregate level, as well as on each individual permit or service regarding fee levels and revenue generation. The last major cost-of-service analysis and fee assessment was conducted in 2013. Since then, the majority of fees have remained unchanged despite increased demand for services and proposed level of service changes relating to the Residential Rental Unit Program. For these reasons, the City is interested in understanding the full cost of providing fee-related services and considering recommendations that might better align fee levels in the future to reflect increased costs associated with providing increased levels of service.

This report provides the City with an overview of current Division fees and charges environment and associated revenues and expenses for each permit, inspection, and service the Division provides. The report also documents the estimated percentage of full costs recovered delivering specific permits, inspections, and services at current fee levels, which will allow City officials to make informed policy decisions regarding future adjustments to fees and charges, if so desired. Furthermore, this report highlights the additional revenues and expenses associated with absorbing all services related to the Residential Rental Unit Program. Finally, this report describes BerryDunn's approach to the analysis and understanding of the Department's organizational structure and services provided, findings, and recommendations.

1.2 Abbreviations and Terms

For purposes of clarity when discussing this project, BerryDunn will use the following terms and related definitions.

Table 1.2: Project Terms and Definitions

Term	Definition
BerryDunn	Berry Dunn McNeil & Parker, LLC
City	City of Gainesville
CoS	Cost-of-Service
CPI	Consumer Price Index
Department	Department of Sustainable Development
Division	Neighborhood Enhancement Division
FTE	Full-Time Equivalent
MS	Microsoft
OPEB	Other Post-Employment Benefits
FY	Fiscal Year
PDF	Portable Document Format (Adobe)
PMT	Project Management Team
PTO	Paid Time Off
SME	Subject Matter Expert
State	State of Florida

2 Approach and Work Performed

This section of the report outlines how BerryDunn approached the project, summarizes the major tasks that were performed within each phase of the project, provides an overview of how the cost model was developed, and provides a high-level synopsis of the project deliverables.

2.1 Work Performed

BerryDunn's approach to completing this study involved three phases: Phase 1 – Project Management and Initial Planning; Phase 2 – Full Cost Analysis and Modeling; and Phase 3 – Final Report and Recommendations. Central to the approach was the use of BerryDunn's Microsoft (MS) Excel-based cost model, which was used to calculate the City's full cost of providing each permit, inspection, and service by service category, and in some cases, by specific permit or service type. Furthermore, the cost model was used to perform forecasting scenarios to assess the fiscal impact of implementing new fees, or changes to current fee levels to reflect elevated levels of service in the future.

After an initial project-planning call with the City to clarify goals and objectives, identify known project constraints, and refine dates and/or tasks as appropriate, BerryDunn requested and reviewed documentation and data to get a better understanding of the Division's current fees, charges, and services environment.

BerryDunn conducted a project kickoff meeting and scheduled a series of follow-up meetings with City subject matter experts (SMEs) involved in the cost-of-service study. BerryDunn also followed up with City staff on multiple occasions throughout the course of the project to confirm BerryDunn's understanding of the data and information provided. The aim of these meetings and conversations was to discuss the level of effort required to deliver select Division services to customers and to discuss the revenue generated and the associated expenses incurred to provide those services.

BerryDunn reviewed the Division's current fees and charges schedule and guided City staff through discussions to consider adjustments to the fee schedule that might better reflect the cost of services the City commonly provides through the Division, and the way in which those services are delivered. This included discussions related to the current fees and charges environment and projected fees and charges environment related to elevated levels of service. Furthermore, BerryDunn also worked with City staff to develop specific revenue and expense forecasts related to the projected absorption of the Residential Rental Unit Program, for which updated fee levels were calculated and their subsequent forecasted fiscal impact projected. These fees were selected based on the significant impact they are forecasted to have on revenue generation for the Division. BerryDunn also reviewed all other fees for services provided by the Division, which were analyzed on a time-per-staff activity basis by which costs were assigned accordingly. Other charges, such as penalties, fines, and State of Florida (State)-mandated fees, were excluded from the analysis.

BerryDunn employed an activity-based costing methodology that analyzes the major process steps required to provide services (e.g., application intake, review, permit issuance, and inspection) and the staff time and resources required to provide each service. This methodology relies on time estimates provided by City SMEs, which are then validated through checkpoints built into the cost model. Furthermore, BerryDunn also employed a standard cost accounting methodology to identify and assign expected costs to permits, inspections, and services provided by the Division, which utilizes identified expected expenses, mainly from the Division's adopted fiscal year (FY) 2021 operating budget segments, to determine full cost allocation. Finally, where detailed and/or accurate data was nonexistent, institutional knowledge from City SMEs was utilized to develop assumptions, as was proportional assignment of expenses based on weighted averages and other standard analytical techniques.

Also included in the analysis are the identified and assigned revenues from FY 2021 associated with providing permits, inspections, and services reflected of the Division's current fees and charges environment, which City SMEs also verified.

BerryDunn prepared a cost model for the City's fees analyzed for this project, based on the Division's FY 2021 adopted expenditure budget and FY 2021 reported actual revenue, key staff input and institutional knowledge, City financial document reviews, and the data discussed and reviewed during fact-finding sessions and project status meetings. BerryDunn reviewed the study findings with the City on multiple occasions, identifying any needed revisions and allowing the opportunity for the City to give feedback and request additions and deletions before approving final deliverables.

2.2 Taxes Versus Fees

The City collects taxes to satisfy its general revenue requirements. The level of service funded from tax levies is determined by the local jurisdiction and generally benefits all City residents, which is different than fees collected for providing specific services to nonresidents, services benefitting smaller groups, or services benefitting only individuals. Fees paid relieve residents of the burden of paying for discretionary services they do not use; therefore, fee levels should reflect the reasonable, identified costs of the work City staff perform to deliver those services. To that end, in this cost-of-service study, BerryDunn analyzed financial data at the City level, the Division level, and, where it was available, the individual permit or service level. In doing so, BerryDunn identified the delta between the current charges being levied and revenue generated and the full cost of providing the service to allow for local policy decisions to be made regarding increased or decreased cost recovery, if so desired.

2.3 Cost Versus Price

Cost is generally defined as the aggregate of expenses incurred by the City for issuing a permit or providing an inspection or service. BerryDunn estimated the full cost of issuing all permits and providing all inspections and services analyzed in this study. After determining the cost of providing fee-applicable services, BerryDunn facilitated discussions with City leadership to

discuss possible approaches should the City desire to adjust current fee levels, to determine the price, and to set the new fee levels based on recommendations.

Furthermore, the cost model allows City staff to enter proposed fee recommendations on a per-fee basis and analyze the impact that the new fee level would have on annual expenditures and revenues. This provides City leadership with the insight it needs to understand the implications of potential fee adjustments on Division's overall budget.

2.4 Position-Specific Hourly Rate Calculations

The cost model captures the personnel costs associated with providing services for which fees are assessed based on fully burdened (loaded) hourly rates calculated for specific City staff positions. The loaded hourly rate captures all full-cost personnel components, which typically include direct salary expenses, benefits expenses, and other post-employment benefits (OPEB) costs per position. The calculated loaded rate also includes applicable and allowable portions of other City departments' operating expenses and capital costs, considered indirect costs for supporting Division service provision. The citywide indirect portion is explained in greater detail in Section 2.5.

2.5 Indirect Costs

In addition to direct personnel-related costs, City departments providing outward-facing, fee-applicable services to external customers often receive internal support from other City departments. Applicable portions of the cost of this support are considered an indirect cost to the individual receiving a fee-applicable service. For the purposes of this study, BerryDunn utilized an indirect cost rate of 11.11% applicable to the Division.

BerryDunn calculated Division-specific indirect costs by developing an indirect cost rate proposal for the Division and calculating an indirect cost rate percentage. The indirect cost rate is calculated using salary-driven indirect allocation estimates provided by City SME knowledge and assumptions. The calculated indirect cost rate allows the City another option, in addition to methods already described and employed, to assess and analyze the impact of indirect costs on the Division's annual operating budget.

The approach to develop the indirect cost rate was as follows:

- BerryDunn identified all applicable City staff providing services for or to the Division and calculated the direct salary and direct benefit hourly rates per specific position.
- BerryDunn met with City SMEs and estimated the amount of direct and indirect staff time spent annually supporting fee-related services.
- BerryDunn met with City SMEs and identified the applicable portion of the indirect citywide pool, which provides internal, indirect support to those City departments providing fee-related services, to apply to Division services.
- BerryDunn calculated the indirect hourly rate per specific position using the data

analyzed above.

This approach allows the City another option to generate forecasting scenarios using the cost model based on any or all of the developed rates: salary rate only, salary and benefit rate, or salary and benefit and indirect rates (the loaded rate).

3 Cost-of-Service Findings

This section of the report provides a general overview of the Department's organizational structure, the major technical findings BerryDunn identified, and BerryDunn's projections based on those findings.

3.1 Neighborhood Enhancement Division Overview

The Division is responsible for providing a range of enforcement, permit, and inspection services to help assure compliance with municipal codes related to property maintenance, efficiency standards, zoning, and nuisances on private properties. Additionally, the Division administers and manages the Residential Rental Unit Program, which governs identification of applicable rental units and/or spaces, performs habitability inspections and permit issuance, and oversees renewals. Table 3.1 summarizes BerryDunn's understanding of the Division's structure and operations as they are currently organized.

Table 3.1: Neighborhood Enhancement Overview

Function	Function Description
Neighborhood Enhancement Division	The Division enforces the City's municipal codes related to property maintenance, zoning, and nuisances on private properties to promote, preserve, and maintain attractive and safe neighborhoods and commercial areas. Additionally, the Division administers and manages the City's Residential Rental Unit Program.
Residential Rental Unit Program	On September 17, 2020, the Gainesville City Commission adopted the Rental Housing Ordinance, which established annual permits, inspections, minimum energy efficiency, life safety, and property maintenance standards for all residential rental units within the City.
Funding Structure	The general fund is used to account for revenues and expenses related to the provision of all Division services and the enforcement all applicable federal, State, and local codes, regulations, and laws. The major revenue generating element for the general fund are fees generated from providing residential rental unit permit and inspection services.

3.2 Neighborhood Enhancement Division Technical Findings

BerryDunn reviewed all Division inspection services and permit issuance services and determined the full cost to provide all services to be \$2,277,754. The identified and assigned revenue resultant from permit issuance and inspectional services is \$438,754. BerryDunn calculated the percentage of costs recovered by way of current fees and charges, finding that the Division is recovering an estimated 19.3% of the cost of providing services. While this

overall cost recovery percentage may seem low, it is not indicative of poor financial management. A number of factors should be considered when assessing the current cost recovery percentage compared to current fee levels. There have been no major fee adjustments related to core services over the last few years, which has led to stagnant revenue generation for some core services. Over the same time, the Division has experienced increased expenditures division-wide related to level of service increases. Moreover, because of the unique nature of services provided by Division, options for revenue generation are few due to the relatively low number of fee-applicable services provided by the Division. Finally, revenues tend to fluctuate widely on an annual basis and are dependent mainly on residential rental unit permits, making increased revenue generation without permit fee increases, or the growth of available rental units, difficult.

3.3 Residential Rental Unit Program

On September 17, 2020, the Gainesville City Commission adopted the Rental Housing Ordinance, which established annual permits, inspections, minimum energy efficiency, life safety, and property maintenance standards for all residential rental units within the City. Furthermore, the new ordinance incorporates additional elements that were not part of the previous Landlord Program, such as enhanced anti-discrimination laws, rental bill of rights, self-inspection checklist sign-off, and a required inspection every four years.

Properties regulated under the ordinance include: a room or rooms located in a condominium, co-op, timeshare, quadriplex, triplex, duplex, or single-family dwelling that is rented, or advertised or held out to be rented, for periods of at least 30 consecutive days or one calendar month (whichever is less). The ordinance does not apply to public lodging establishments. BerryDunn reviewed all Division inspection services and permit issuance services related to the Residential Rental Unit Program and determined the full cost to provide services at current levels to be \$774,131. The identified and assigned revenue is estimated to be \$376,319, reflective of the current annual permit price of \$122, and an \$85 re-inspection fee, if necessary, per applicable rental unit/space. The revenues and expenses identified above reflect contractor expenses and revenue shares as the vast majority of inspections are currently being completed by a third-party contractor.

To that end, BerryDunn projected additional expenses to be incurred and additional revenue generated should the City decide to eliminate third-party contractor assistance and assume all rental inspection and permit service duties in-house. It is projected that an additional \$508,448 of additional expenses would be incurred in Year One of assuming all service tasks and \$550,516 of additional revenue would be realized. Table 3.3 below summarizes the current level of service and associated revenues and expenses and projected revenues and expenses with increased level of service:

Table 3.3: Residential Rental Unit Program

Service Description	Current Fee	Projected Revenue	Projected Expenses	Cost Recovery
Current Level of Service with Contractor Assistance	\$122	\$376,319	\$774,131	48.6%
Future Level of Service, no Contractor Assistance.	\$122	\$926,835	\$1,282,579 ¹	72.0%
Service Description	Fee at Full Cost	Projected Revenue	Projected Expenses	Cost Recovery
Future Level of Service, no Contractor Assistance.	\$155	\$1,167,075	\$1,147,836 ²	100.0%

1. Includes Year One capital start-up expenses (vehicles, computers, etc.)

2. Reflects Year Two expenses

The above analyses reflect the City's current rental landscape of 8,000 applicable, regulated rental units throughout the City and an initial inspection pass rate of 75%, with 25% needing re-inspection after deficiencies have been corrected. In Year Two of operating the Residential Rental Unit Program in-house, it is projected that the initial pass rate will increase to 90%.

For these reasons, BerryDunn recommends that a near-term increase to the Residential Rental Unit Program permit fee should be considered, which would result in necessary revenue gains to sustain Division operations and service delivery related to administering and managing the Program. Additional revenue gains could also be used to offset projected expenditure increases related to the Division's desire to assume all Rental Unit Program inspections and permit services in-house.

The Division should also take care to monitor local indicators related to rental trends and permit activity. Staff should track in detail the estimated number of applicable rental units throughout the City, permits issued, and inspections conducted and assess fee adjustments for specific services on an FY basis to determine the level of impact any adjustments might have on revenue generation and to offset applicable costs.

3.4 Summary of Technical Findings

Table 3.4 provides a summary of the key technical findings of BerryDunn's analysis of the Division's fees and charges environment.

Table 3.4: Summary of Technical Findings

Summary of Findings	
Category	Findings
Current Overall Division Cost Recovery	BerryDunn identified and assigned \$438,754 of revenue and \$2,277,754 of estimated expense to the fee-applicable services analyzed for the Division. The Division's current cost recovery rate for all services analyzed in this study is 19.3%.
Current Residential Rental Unit Program Cost Recovery	BerryDunn identified and assigned \$376,319 of revenue and \$774,131 of estimated expense to the permit and inspection services analyzed for the Program. The Program's current cost recovery rate for all services analyzed in this study is 48.6%. This reflects the current rental landscape of 8,000 applicable rental units and a pass/fail ratio of 75%/25%, respectively.
Projected Residential Rental Unit Program Cost Recovery	BerryDunn projects Program revenues of \$926,835 and expenses of \$1,272,550 in Year One of assuming all Program inspection and permit issuance duties, with elimination of third-party contractor support. The Program's projected cost recovery rate for all services analyzed in this study is 72.0%, at the current permit fee level of \$122.
Projected Residential Rental Unit Program Full Cost Fee Level	BerryDunn projects that a rental unit permit fee of \$155 would cover the full cost of administering and managing the Residential Rental Unit Program.
Indirect Cost Rate	BerryDunn used an indirect cost rate of 11.11% to calculate the estimated full cost of providing Division permits and services.
Fees and Charges Environment	The Residential Rental Unit Program accounts for over 85% of revenue generated annually for the Division.
Calculated Hourly Rates	BerryDunn calculated a salary and benefit rate, and overhead rate for each full-time position budgeted in FY 2021. The Division may choose to use loaded hourly rates for budgeted full-time positions to assess the full cost of providing fee-related services or to perform additional forecasting scenarios. The model allows for any combination of calculated rates to be used for forecasting purposes.

3.5 Proposed Fee Changes

The following Table 3.5 reflects the proposed Residential Rental Unit Program permit fee change. The table highlights the current fee for rental unit permits, a proposed percent increase to be applied to the current fee level, and a proposed new fee amount for consideration (greater levels of detail relating to individual permits and services, calculation information, and revenue forecasts can be found in the Cost-of-Service Model attached in Appendix A). The proposed fee

level reflects the desired revenue gain in order to achieve the Division's cost recovery target for assuming all services in-house and increasing the level of service.

Table 3.5: Residential Rental Unit Program

Permit/Service Description	Current Fee	Proposed Increase %	Proposed Fee
Residential Rental Unit Program Permit Fee	\$122 per permit	27.0%	\$155 per permit

3.6 Personnel Considerations

In conjunction with City staff, BerryDunn estimates that four to five full-time positions would need to be added to the Division's personnel count in order to effectively and efficiently administer and manage the Residential Rental Unit Program in-house. In doing so, the City will improve customer service and help to alleviate current "pinch-points," improving the overall efficiency of Division service delivery.

This exercise was not a formal personnel and staffing level analysis, but rather an analytical examination based on known data, observations, and discussions with City staff. Other important elements of the staffing projections and related level of service increases are as follows:

- Projected staffing level needs are based on the current estimate of 8,000 rental units, resulting in at least 2,000 permits issued and inspections conducted annually;
- Additional full-time positions approved and funded would most likely be filled incrementally; given the current labor market, it is understood that approved and funded full-time positions would most likely take a considerable amount of time to fill;
- potential efficiencies in service delivery methods and improvement in customer service previously mentioned as a result of adding full-time positions are based on subjective forecasts; and,
- Any increases in fees would be assumed to provide for elevated levels of service, for which additional staffing is most likely needed in order to achieve.

Nonetheless, the brief overviews below can provide valuable insight and might help City leadership with informed decisions related to increased Division staffing levels needed to administer and management the Residential Rental Unit Program in-house.

3.7 Formal Fee Updates

BerryDunn recommends the Division undertake a basic cost-of-service update annually and conduct a formal fee study every three to five years; when the City experiences a significant change in demand for services, organizational structure, or key business processes; or when it



identifies budgetary issues. In the meantime, the Division is encouraged to make adjustments and updates to the cost model on an annual or ongoing basis using detailed data and information as it becomes available.

3.8 Summary of Recommendations

Table 3.8: Summary of Recommendations

Summary of Recommendations		
Category		Recommendation
1	City	The City should adopt a Residential Rental Unit Program permit fee of \$155.
2	Division	The Division should utilize its electronic permitting system, Citizenserve, to the greatest extent possible to allow for detailed tracking and analysis of the annual volume of rental unit permits. Capturing this detail and incorporating it into the cost model will allow for a more nuanced and accurate analysis of cost recovery and will allow staff to assess the impact of specific fee adjustments on revenues and expenditures in greater detail. Furthermore, this information can be used to assess changes in the rental unit landscape.
3	Division	All fee levels, once adopted, should be reviewed annually and adjusted in accordance with budgetary requirements, staff effort, service and permit volume, or other established criteria.

4 Cost Model Overview

This section of the report outlines the technical sections BerryDunn constructed to develop the cost model used for this study.

4.1 Department Fees and Charges Cost Model Framework

Table 4.1 summarizes the format, technical construct, and content of the cost model. This includes a summary description of each tab in the cost model.

Table 4.1: Cost Model Framework

Cost Model Framework		
	Model Section/Tab	Description
1	Cover	Contains the title of the study, Department project sponsor contact information, and BerryDunn contact information.
2	Summary Tabs (cost-of-service section)	Contains a high-level overview of all services with a comparison of assigned revenue and assigned expenses, as well as current percentage cost recovery, specific to the Division.
3	Service Listing Tabs (cost-of-service section)	Contains all services and associated fees and revenues and, where possible, percentage cost recovery by individual permit and/or service type, and annual volume, specific to the Division.
4	Personnel Expense Tabs (cost-of-service section)	Contains personnel expense forecasting functionality as well as personnel expense by permit and/or service type.
5	Program Expense Tab (cost-of-service section)	Contains non-personnel expense by service type as well as assigned citywide indirect expense by permit and/or service type.
6	Worksheet Tabs (cost-of-service section)	Contains all revenue and expense data, as well as cost recovery percentage by service type. Also contains functionality to create forecast scenarios and adjust cost recovery goals by service type.
7	Department Full-Time Equivalent (FTE) Personnel Tab	Contains the list of all FTE personnel assigned to the study, annual salary by position, annual benefit expense by position, and various hourly rates calculated by position.
8	Personnel Analysis Tabs	Contains all FTE personnel assigned to the study, number of current funded positions, salary by position, and direct and indirect expense assumptions.
9	Indirect Cost Rate Proposal Tabs	Is developed in conjunction with City SMEs, and contains assumptions pertaining to direct and indirect full-time staff involvement with fee-related services as well as internal citywide support assumptions.
10	Revenues	Reflects the actual reported revenue for FY 2021.



Cost Model Framework		
Model Section/Tab		Description
11	Expenses	Reflects the adopted budget and actual expenditures for FY 2021, including personnel and operating costs.
12	Indirect Allocations	Reflects calculation of an indirect personnel support and citywide support to the Division, providing fee-related services.
13	Assignable Productive Hours	Reflects the assumed productive personnel hours for this study. This metric can be adjusted as needed.

4.2 Updates to the Cost Model

Some organizations choose to update their fees on an annual basis. The cost model has the built-in capability for City staff to make changes to inputs in order to assess the impact of fee adjustments in the future, even after the cost-of-service study is complete, based on changes to revenues, expenditures, the Consumer Price Index (CPI), or some other established criteria.

Table 4.2 describes how the City can maintain the cost model if it chooses to update fees and charges intermittently or on an annual basis.

Table 4.2: Cost Model – Inputs to Update

Category	Description
Revenues	Budgeted or actual revenues related to fees and charges for permits and services.
Direct Expenses	Budgeted or actual personnel and operating expenses related to directly providing City services.
Indirect Expenses	Budgeted or actual personnel and operating expenses related to the internal support of providing City services.
Specific Fee Levels	Specific dollar amounts to be charged for individual services provided.
Annual Service Volumes	Annual total counts for the number of permits issued, inspections conducted, or services provided per fee category.



Appendix A: Cost Model

The cost-of-service model developed for the City is attached as an MS Excel file.