

NAPA CITY COUNCIL
AGENDA SUMMARY REPORT
August 7, 2007

SUBJECT:

Response to the Napa County Grand Jury 2006-2007 Final Report

ORIGINATED BY:

City Manager's Office

PROJECT DESCRIPTION:

In 2005-06, the Grand Jury reported on the City's Finance Department, Community Development Department and Building Permit process. The City's response to the 2005-2006 Grand Jury report was approved by the City Council on August 15, 2006. The 2006-2007 Grand Jury Report identified additional findings and recommendations for the City of Napa, most of which are related to previous findings and recommendations from the 2005-2006 Report. The Grand Jury split its findings and recommendations into two Sections: Reply to the City of Napa Response to the 2005-2006 Grand Jury Report; and "Additional Information". Following are those findings and recommendations along with proposed City responses to the Grand Jury Recommendations.

Finding 1 (Compliance with Maximus Report)

The City of Napa CDD lacks sufficient, specific written policies and procedures. In addition to written departmental goals and objectives, written comprehensive job descriptions for each position are needed.

City Response to Finding 1: The City agrees that clear and concise written policies and operating procedures are the foundation for efficient business practices. Policies and procedures are part of continuous improvement mechanisms and the City concurs that updates and in some instances further development of such policies and procedures are needed. The efforts of City staff in conjunction with the Development Advisory Committee (DAC) over the last year have been fruitful. Two key work products are close to completion: new *Streets and Roads Standards* and updates to the *Design Guidelines* and its procedures. Numerous CDD policy documents and some procedures are available on the City's website.

Recommendation 1

CDD should draft and make public its written policies, operating procedures and job descriptions consistent with the recommendations of the 2002 Maximus Report.

City Response to Recommendation 1: The City agrees with this recommendation. The recommendation has been partially implemented, and will continue to be implemented as updates to existing policies and procedures and further procedures are developed. All CDD written job descriptions are available online at www.cityofnapajobs.org. Many department policies and operating procedures are available online at www.cityofnapa.org. For example, the Building Division section contains written Division goals, forms, applications and handouts. The Engineering Division provides its adopted city engineering plans and policies, such as the Storm Drainage Master Plan. The Planning Division contains adopted City planning division standards, policies and guidelines, such as the General Plan, Zoning Ordinance, Design Guidelines and

CEQA procedures, as well as updated application forms. Development of overall Departmental and other Division goals and objectives was underway at the beginning of 2007 with Budget development; the adopted budget contains written objectives for all Department divisions.

A final draft of updated *Streets Standards* that has been reviewed with a DAC Street Standards Committee, is currently being completed, and is expected to be forwarded to the Planning Commission and City Council for adoption within the next 12 months. The DAC Design and Parking Committee has compiled certain *Soscol Development & Design Guidelines*, and *Residential Design Guidelines* updates and will be reviewing parking standards in the near future; recommendations are expected to be forwarded to the Commission by the end of the year.

Finding 2 (Quality of Service)

The City of Napa has recognized and is working with the DAC.

City response to Finding 2: The City agrees with this finding.

Recommendation 2

The City of Napa should continue to involve and utilize the DAC for oversight, feedback and direction toward correction and ongoing effectiveness of the CDD. Further, this committee should be left autonomous, to provide independent and effective oversight of the CDD.

City Response to Recommendation 2: This recommendation has been implemented in substantial part; however, a portion of the recommendation will not be implemented because it is not reasonable. The City agrees that the DAC is a valuable and independent working committee that reviews and comments on the operations of the CDD, and the City appreciates the effort, feedback and input from its members. However, the City respectfully disagrees with the characterization of the DAC's role as "oversight" of the CDD. Oversight of CDD is legally and properly the management responsibility of the City Manager.

Finding 3 (Staff Project Billing via Trakit)

The Trakit software program has potential to be useful for managing and processing project applications for CDD. It can also serve to document the staff hours actually applied to the various projects and relate them to the Department's billings. Ongoing review and correction on the part of CDD management is crucial for the successful implementation of this costly software.

Response to Finding 3: The City agrees with this finding.

Recommendation 3

CDD management should continue to monitor employee use of Trakit to check for accurate data entry. For this software system to be useful, it is imperative that staff post billable hours on a daily basis. Continued training of staff should accomplish this goal.

City Response to Recommendation 3: The City will continue to implement this recommendation. Daily billing is strongly encouraged. A renewed cross-departmental training effort is now underway to strengthen the capabilities of Trakit and broaden its use to other City Departments.

Finding 4 (Consultant Billing)

Charges by consultants are often not itemized, and thus there is no verifiable relationship between the work performed and the amount billed.

Response to Finding 4: The City agrees with this finding. Some consultant invoices recently reviewed by staff over the past several months reflect itemized accounting that identify the project being worked on, the task performed, and time spent by date, however, some have not included all of this information.

Recommendation 4

Outside consultants should be required to itemize their charges.

Response to Recommendation 4: The recommendation has been partially implemented. City management will impose tighter direction and oversight of this important business practice. Within two months, staff will develop a uniform written memorandum regarding the content to be included in Consultant invoices.

Finding 5 (Accounting of Prior CDD Revenue/Expense)

The audit recommended by the 2005-06 Grand Jury has not been performed

City Response to Finding 5:

The City respectfully disagrees with this Finding. A detailed independent audit from 2000 to present of project-related revenues and expenditures is cost prohibitive and would draw on limited staff resources. However an audit for fiscal year 2006-2007 is underway. In the course of an annual independent audit, randomly selected revenue and expenditure testing occurs to ensure that revenues and expenditures are materially correct, including posting to the proper accounts. Additionally, as part of the current annual audit, City management has requested that the independent auditor specifically test fee calculations generated from the Trakit software system during fiscal year 2006-07 and confirm revenues are posting to the appropriate funds (i.e., project consultant, staff and overhead cost recoveries post to the General Fund, Street Impact Fees post to the Development Impact Fund for future street projects, Water Connection Fees post to the Water Enterprise Fund for future expansion, etc.)

Recommendation 5

A complete audit should be performed to establish the cost of providing services, the amount of fees generated, and the purposes for which they are used. The City Council should make the necessary funds available to retain a private firm to complete this audit, covering the years from 2000 to present.

City Response to Recommendation 5:

The function of an audit is to provide assurance that reported costs are materially correct. An independent audit is underway for fiscal year 2006-2007 and is part of the overall cost assurance. However, a cost allocation study is the method to identify and properly allocate overhead costs for providing services. A cost allocation study, in draft form, has been prepared by an independent consultant to allocate General Fund support center costs (administration, building maintenance, etc.) to the various functions and services provided by the City. The Maximus Fee Study will be based on analysis of the Community Development Department processes and administrative costs as they relate to specific services. The Maximus Fee Study will utilize the final Cost Allocation Study to determine the General Fund support center (overhead) costs to be allocated by service provided.

Finding 1 (Current Maximus Study of Fees and Charges)

The City failed to adequately notify all interested parties, and obtain appropriate public input, prior to initiating a study of the CDD and billing practices. The study parameters appear to fail to achieve the level of accountability called for by the 2005-06 Grand Jury.

City Response to Finding 1: The City respectfully disagrees with this Finding. The initiation of the Maximus Fee Study was publicly noticed and brought before the City Council on September 12, 2006. Prior notice of the Maximus contract was sent to the Napa County Association of Realtors and Building Industry Association; no responses were received regarding the scope of the study. The Maximus User Fee Study was not intended to include a full accounting standard audit, but to identify the cost of providing services on a full cost recovery basis. However, the Finance Department has retained a consultant to do a cost allocation plan for all city activities; that study is currently in its fourth update.

Recommendation 1

The City should hold up the study until sufficient public review and comment has been obtained. The objectives and parameters of the User Fee Study should be sufficient to address the public concerns for the billing practices of the City, the CDD and the project application process.

City Response to Recommendation 1: This recommendation has been implemented in substantial part. There have been, and will be further opportunities for public input into billing practices when the study is reviewed prior to Council action. The City has included substantial and sufficient public review into the Maximus study process, and the study will set a clear standard for collecting fees for all development-related activities. As the City responded to the Grand Jury in detail last year, the city does not believe that an audit of past charges for city staff time used to process private development applications would provide value to this set of concerns. In fact, the current Maximus Study underway should provide a reasoned and detailed methodology for assessing true costs for providing development services to private commerce.

The principal goal of the Study is to calculate the full cost of providing user fee related services, including all indirect (citywide and departmental support) and direct (labor and supplies) costs. It is an industry standard in California that Cities require private developers to shoulder the full cost of their activities and that this burden not be passed on to the average taxpayer. These charges are technically identified as "user fees" and are defined as "those services the City provides to individuals who receive a direct or personal material benefit from the services."

Because the Maximus methodology is data driven, to arrive at a true cost of service broken down into discreet units of work, its fee studies are generally supported by major building associations including the Building Industry Association.

With regard to public input the City approved a contract with Maximus in September, 2006 after notice and hearing. Further, the City provided a letter to the DAC in late June of 2007 that outlined a very detailed and transparent public process that invites the public and the DAC and other groups into examining, questioning and offering of suggestions into the Maximus Study, as a draft document, and ultimately in reviewing the City's proposed fee schedule. The City is committed to an open and forthright dialogue with its community about development fees and service. Below is an excerpt from the letter to the DAC-- showing the schedule and commitment to a very open public process.

"The development community, citizens, and businesses will be included in a review of the study and be allowed ample opportunity to comment and make suggestions to staff and the Council about the study and resulting fee ordinance. To that end the following schedule is proposed:

1. Internal Staff Review (approximately 3 weeks)
 - a. Finance (financial assumptions)
 - b. Legal (legal compliance)
 - c. Development Services Departments (hours and tasks)
 - d. City Manager's office (overall review)

2. Maximus revisions to staff comments (1-2 weeks , depending upon the number and complexity of the changes)
3. Release to public for review (2-4 weeks)
 - a. Staff and Maximus meet with Community Development Advisory Committee (CDAC) – establish on-going meetings as needed
 - b. Review with the BIA
 - c. Review with Napa/Solano Builders Exchange
 - d. Review with Napa taxpayers association
 - e. Other business and community groups as requested
4. Revisions by Staff and Maximus based on public comments (1 week)
5. Re-release of the Draft Report and Conduct a Public Workshop with the Planning Commission (after proper noticing – 2 weeks)
 - a. Preparation of an accompanying staff report prepare a fee ordinance
6. Revisions and inclusion of Planning Commission and the public's comments, preparation of final report (1 week)
7. Public Hearing and adoption of a Fee Ordinance and study"

Finding 2 (Overhead Charges included in the Billings)

Overhead costs have been overstated in the billings sent to applicants for the City's cost of project application review process.

City Response to Finding 2: The City respectfully disagrees with this finding. It is true that many city employees have typically billed 30-35% of their hours to specific development applications, and staff hourly billing rates are intended to include a 100% recovery of city costs for operation and support of the CDD overhead as they relate to that hour. However, if only 35% of hours are billed, then only 35% of city costs for support of the department are recovered. For example, if the City's overhead allocated to a CDD employee is \$24 for an 8 hour day, and the employee bills 3 hours, then the City will recover \$9 for overhead. ($\$24 * 3/8 = \9)

The City's Cost Recovery Manual, explains in detail the method of cost recovery used by the City, which is very typical of public and private billing practices.

Full cost recovery of a service is defined as the recovery of all direct and indirect costs associated with the delivery of a good or service. Direct costs are those that can be specifically assigned to the service being examined. Direct costs are subdivided into salaries and wages, fringe benefits, and non-personnel costs, which consist of equipment used and supplies consumed during the delivery of service. Indirect costs, commonly called overhead costs, are those costs that are necessary for the operation of the organization, but are not uniquely or easily assignable to a specific good or service. Rent and utilities, depreciation on buildings and equipment, departmental administration expenses and the cost of services from other departments are examples of indirect costs. The city's manual includes labor and fringe load, departmental overhead and general city overhead as indirect costs.

Labor load and fringe load represent a distribution of the costs of nonproductive time (such as vacations) over the costs of productive time. Departmental overhead represents indirect departmental costs as administrative and clerical support, supervision, data processing expenses, equipment depreciation and the operation and maintenance of the square footage of City buildings occupied by a department. General City overhead represents services provided to a department by other City departments, such as Personnel, Purchasing, etc. The combined overhead rates (departmental and general city) must be applied to individual's available hourly rate to arrive at the hourly billing rate as is the current practice within the permit tracking system.

Recommendation 2.

The City should prepare a recovery of costs document that would more accurately reflect recovery of only actual costs for all services. This recovery of cost document should be updated and approved annually by the City Council, to insure complete but accurate and accountable reimbursement to the City of Napa.

City Response to Recommendation 2: The City Finance Department is currently working on its 4th update of the City Cost Allocation Plan since 1996, and intends to present it to Council by December 2007. As previously described in City Response to Finding 2, the allocation of support services to the Community Development Department will constitute a portion of the hourly billing rate in conjunction with the Maximus Fee Study to establish the actual cost per hour for the service provided. The City plans to update staff labor rates annually, with the overhead cost allocation updated biannually with the budget.

FINANCIAL IMPACT:

None

CEQA:

Not a project; CEQA does not apply.

DOCUMENTS ATTACHED:

None

COUNCIL ACTION REQUESTED:

Approve the City responses to the findings and recommendations of the 2006-2007 Grand Jury Report (as outlined above, and incorporating any changes made to the responses by City Council during the meeting), and direct the City Manager to prepare the formal response to the Grand Jury on behalf of the City Council and the City Manager, and submit the formal response to the presiding judge of the superior court.

Clerkref: City Manager's Office