

## 2 Introduction

Springsted Incorporated has been engaged to assist the City of Shakopee with a cost of services study in order to provide the City with information relating to current fee levels and the potential availability of new and/or increased fees. This study did not include the measurement of efficiencies or adequacy of existing service levels for the fees analyzed. The study was also undertaken to provide the City with additional information which was systematically developed and documented so that managerial and policy decisions could be made based on more complete information than was previously available. In addition, the study identifies costs incurred for services provided by the City's General Fund to other various funds, and provides Shakopee with more revenue options to diversify the General Fund Revenue base.

The cost of services study consists of two phases. The first phase includes a review of the general level on existing user fees and a determination of whether or not other user fees might be charged. This phase of the study also includes the identification of indirect costs which the City incurs when providing services associated with user fees. This portion of the study emphasizes the development of an accurate overhead allocation that reflects real City staff time and how that time is allocated among the various City departments. In addition, this information will be used to determine the value of time spent by tax-supported areas.

The second phase of the study involves a more detailed and comprehensive analysis of each of the user fees currently charged.

Upon completion of this study, the City will have a summary and analysis of the information gathered relating to its user fees and a final report which will provide options to make long-term recommendations regarding current and future user fees for the City of Shakopee.

The goals of this cost of services study are to:

- Assist the City in defining and selecting services for which user fees may be appropriate.
- Assist in identifying new services for which user fees may be charged.
- Provide a more diversified revenue base for the City.
- Provide a comprehensive and detailed analysis of the real cost of providing various services.
- Establish charges and transfers that are logical and defensible.

## Background

The Cost of Services Study consists of two phases. Phase I includes a review of existing user fees and the general level of the fees, a determination of whether other user fees might be charged, and the identification of indirect costs that the City incurs when providing services associated with user fees. This Phase emphasized the development of an administrative overhead allocation and an examination of City user fees.

Phase II involves a more detail-comprehensive analysis of each of the user fees currently charged by the City of Shakopee related to construction and development activities. The Study made estimates regarding hourly rates for each of the departments that provide services to City residents and other users. The hourly rate for each department is a fully funded rate that includes direct and indirect costs for employees who provide specific services. If more than one employee provides the same service and their salaries and wages are different, an average of the employees' salaries and wages is calculated and applied to the service cost.

The value of this Study rests, in part, on the information obtained through personal interviews conducted with senior management and other pertinent staff members. The validity of the Study therefore depends upon the accuracy of the data which is based on personal observation, personal experience, and management intuition. In some cases, there are detailed time records relating to the performance of duties directly connected to services provided. In other cases, the Study reports only best-guess estimates concerning the allocation of time devoted to services.

This Study examines approximately one hundred forty four (144) fee types and charges related to construction and development activities. The data generated by this report permits the City to evaluate whether there should be changes to existing fee structures or the impact of changes to service levels.

As part of this Study, a review of the allocation of General Fund Resources to other funds was examined in light of actual costs. The City's General Fund currently provides services to the Economic Development Authority Fund, Recreation Fund, Sanitary Sewer Fund, Storm Drainage Fund, Telecommunications Fund, and the Transit Fund.

**Purpose**

The purpose of this Study, utilizing actual 2005 revenues, expenditures and service levels, is:

- To undertake a systematic review of the City’s current user fee system to determine if current user fee amounts are sufficient to recapture the actual cost of providing the related service;
- To identify other services currently being performed that might generate new fees; and
- To assist the City in evaluating it’s user fee system and demonstrating a direct relationship between the payments made for services and the services delivered.

**Annual Reporting Requirements**

Minnesota Statutes § 16B.685 requires that each municipality annually report by July 1 all construction- and development-related fees collected by the municipality from developers, builders, and subcontractors. The report must include: (1) the number and valuation of units for which fees were paid; (2) the amount of building permit fees, plan review fees, administrative fees, engineering fees, infrastructure fees; and (3) the expenses associated with the municipal activities for which fees were collected.

The form, as prescribed by the Minnesota Department of Labor and Industry, provides for the inclusion of all costs including salaries, benefits, transportation, office, and other operating expenses, as well as such indirect costs as service expenses from other departments for building, utilities, finance, personnel, IT, planning and engineering.

The information derived from this Study and the Model that has been developed will provide relevant information for completion of the annual reporting forms for 2005 and into the future. The reports will also provide “reconciliation” from the books of record of the municipality to the resulting information used on the reporting forms.