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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**IBA Report Number:** 11-42

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# Modified/New Fire-Rescue User Fees for High-Rise Inspection and Air Medical Transportation Services

## OVERVIEW

The City's General Fund Budget for FY 2012 incorporated revenue from proposals for a modified High-Rise Inspection Fee and a new Air Medical Transportation Fee. The FY 2012 budget was adopted with the understanding that staff would expeditiously bring these user fee proposals to the City Council for consideration and approval.

The IBA has reviewed the proposed High-Rise Inspection Fee and Air Medical Transportation Fee with Fire-Rescue Department staff. This report reviews the proposed methodology associated with each of these fees and compares the resulting revenue amounts with what was budgeted for FY 2012.

## FISCAL/POLICY DISCUSSION

### **Modified High-Rise Inspection Fees**

#### Background

The Fire-Rescue Department has charged office and hotel high-rises for annual fire inspections since 1989. During the FY 2010 budget process, the Fire-Rescue Department was directed to 1) also begin charging residential high-rises for annual fire inspections and 2) increase their fire inspection fees from \$10.63 per thousand square feet to \$11.83 in order to fully recover the cost of the high-rise inspection program. In response to concerns raised by residential and hotel high-rise owners, Fire-Rescue suspended billing for inspections in FY 2010 in order to further analyze and modify the fee assessment

methodology. It should be noted that although billing was suspended in FY 2010, fire inspections continued to be performed and building owners were informed there would be a retroactive collection once a new fee assessment methodology was approved.

In October 2010, the Office of the City Auditor released a Fire Prevention Audit recommending the Fire-Rescue Department resume and retroactively bill for high-rise fire inspections. The Fire-Rescue Department has developed a modified fee assessment methodology for City Council consideration. The modified fee assessment methodology has been reviewed by the Office of the City Attorney and found to be exempt from the restriction placed on new and existing fees by Proposition 26 or California Constitution Article XIII A.

#### Methodology for Modified Fee Proposal

In developing the new fee assessment methodology, the Fire Department determined the total cost of the High-Rise Inspection Program has been reduced from \$474,939 to \$386,490. The reduction is largely explained by the reduction of .50 of a Fire Prevention Inspector II for the Program. The proposed fee methodology seeks to fully recover the \$386,490 expense for the High-Rise Inspection Program.

As noted in the docketed materials, square footage assessments would be determined based on the type of high-rise building inspected as follows:

Commercial – assessed on total square footage

Hotels – assessed on square footage of common areas plus 25% of room space

Residential – assessed only on common areas (including mechanical and storage spaces)

The Fire-Rescue Department has determined there is 56,217,206 square feet in 205 high-rises structures receiving fire inspections. Of the total 56,217,206 square feet, it has been determined that 35,253,144 is assessable under the new fee proposal to recover the costs of fire inspections. As the proposed fee is based on 1,000 square feet, the total assessable square footage number above is divided by 1,000 to become 35,253. Dividing 35,253 into the total cost of the High-Rise Inspection Program (\$386,490) results in a fee of \$10.96 per 1,000 square feet. It should be noted that this represents a 7.4% reduction from the previous high-rise inspection fee of \$11.83 per 1,000 square feet.

Additionally, the Fire-Rescue Department will bill \$138/hour for optional services and charge a \$300 non-compliance penalty for 3<sup>rd</sup> and subsequent inspections. All new fees are proposed to become effective July 1, 2011.

#### FY 2012 Budget Related Considerations

The FY 2012 Budget includes \$493,280 in revenue attributable to annual prospective fire inspections for high-rise buildings. Although billing for high-rise fire inspections was suspended in FY 2010, the revenue amount has remained budgeted from prior fiscal years because it was thought the new fee might be quickly implemented. Additionally, \$600,000 in one-time revenue was budgeted in FY 2012 for the retroactive collection of fees for high-rise fire inspections performed in FY 2010 and FY 2011.

Assuming 100% collection of billed fees, the new fee proposal is projected to generate \$386,490 plus any optional service or penalty revenue. If the new fees are adopted and implemented by July 1, 2011 as planned, it is unlikely that the Fire-Rescue Department will recover the \$493,280 that has been budgeted in FY 2012; however, this revenue shortfall could be made up if retroactive collections are made as planned. As billing was suspended for FY 2010 and FY 2011, it is reasonable to assume that two years of High-Rise Inspection Program costs (at the revised cost level) could result in one-time revenue of approximately \$773,000, or \$173,000 more than was budgeted for retroactive collection in FY 2012. The IBA recommends that inspection revenue and retroactive collections be closely tracked and reported during the fiscal year.

### **New Air Medical Transportation Fee**

#### Background

In August 2007, the City Council approved a resolution allowing for the billing of patients and/or their insurance for air medical transportation costs provided by one of the Fire-Rescue Department's helicopters. The intent was to recover all costs associated with helicopter operations while the helicopter was in the air providing air medical transportation. The Fire-Rescue Department has informed the IBA that implementation of the new fee was delayed by challenges associated with contracting for a third-party billing service. Billing and collecting for emergency rescue services is complex and the Department believes the City benefits from using a third-party billing service.

#### Methodology for the New Fee Proposal

In order to fully recover costs associated with helicopter operations while Fire-Rescue helicopters are in the air providing air medical transportation services, the Department estimated there would be five air medical transportation flight hours a month. Allowing time to contract/coordinate with a new third-party billing service, the Department plans to collect the new fee for 10 months of FY 2012. Five flight hours a month multiplied by 10 months results in an estimated 50 flight hours for FY 2012.

Based on historical experience, the Department estimates a total cost of \$3,250 per flight hour; however, an additional 20% must be added to this amount to compensate the third-party billing service for their work. Multiplying \$3,250 by 120% results in a fee of \$3,900 per flight hour to recover all costs associated with providing air medical transportation flight service. Applying the new fee to an estimated 50 flight hours in FY 2012 results in total revenue of \$195,000; however, a 33% collection rate is assumed to result in approximately \$64,350 of cost recovery revenue in FY 2012. Fire-Rescue staff indicates that 33% is the estimated industry collection rate.

The new Air Medical Transportation Fee has been reviewed by the Office of the City Attorney and found to be exempt from the restriction placed on new and existing fees by Proposition 26 or California Constitution Article XIII A.

FY 2012 Budget Related Considerations

The FY 2012 Budget includes \$53,625 in revenue attributable to a new Air Medical Transportation Fee. Based on the calculations and assumptions above, the proposed fee would result in \$64,350 of cost recovery revenue in FY 2012, or \$10,725 more than was budgeted. Given uncertainty associated with collection of a new Air Medical Transportation Fee, the IBA believes the budgeted revenue amount is appropriately conservative.

**CONCLUSION**

The Fire-Rescue Department has proposed a modified High-Rise Fire Inspection Fee and a new Air Medical Transportation Fee for inclusion in the City's General Fund Budget for FY 2012. These user fee proposals seek full cost recovery for the services provided. The FY 2012 budget was adopted on June 6, 2011 incorporating revenue from these proposed fees with the understanding that staff would expeditiously bring the specific fee details forward for City Council consideration and approval.

The IBA has reviewed the modified High-Rise Fire Inspection Fee and new Air Medical Transportation Fee with Fire-Rescue Department staff. Although the proposed fees have changed since their inclusion into the Proposed Budget for FY 2012, the IBA believes the current structure of the fees will result in cost recovery revenue that is close to the amounts budgeted for FY 2012.

Per Council Policy 100-05, “regular annual changes to user fees in the General Fund shall be first reviewed by the Budget and Finance Committee and proposed to the City Council during the annual budget process”. Although the Fire-Rescue Department user fee proposals were brought forward as a part of the Budget and Finance Committee budget hearing, that setting did not allow for ample review and discussion of the proposed fees, or the adoption of the resolution and ordinances necessary to modify the fees before adoption. In the future, we recommend fee proposals be brought forward to Council in advance of budget adoption.

In keeping with our support of the FY 2012 Budget and in accordance with Council Policy 100-05, the IBA is recommending the City Council adopt the resolutions for a modified High-Rise Fire Inspection Fee and a new Air Medical Transportation Fee.

**[SIGNED]**

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