

Tobacco Retail License (TRL) Fee Study

FINAL REPORT

DECEMBER 2, 2024

City of Vallejo, California



TABLE OF CONTENTS

SECTION I – EXECUTIVE SUMMARY	1
Introduction	1
Study Scope and Objectives	1
Methodology	1
Legal, Economic and Policy Considerations	3
Study Findings and Recommendations.....	4
SECTION II - FEE SUMMARY HIGHLIGHTS	5
Code Enforcement – Tobacco Retail License	5
Recommendations going Forward	5

Section I – Executive Summary

Introduction

MGT of America Consulting, LLC (MGT) is pleased to present the City of Vallejo with this summary of findings and recommendations for the recently completed Tobacco Retail License fee study.

In 2024, the City contracted MGT to perform a fee study analysis to implement new fees for the recently implemented Tobacco Retail License program within the Code Enforcement division using fiscal year 2023/2024 budgeted figures, staffing, and operational information.

This report is the culmination of a study conducted by MGT in collaboration with Code Enforcement and City Attorney staff. MGT would like to take this opportunity to gratefully acknowledge all staff who participated in this project for their efforts and coordination.

Study Scope and Objectives

The study included a review of fee-for service activities within the following divisions / service areas:

- ❖ Code Enforcement – Tobacco Retail License

The study was performed under the direction of the Community and Development Services Department, which includes the Code Enforcement and Planning Divisions. The primary goals of the study were to:

- Develop a catalog of fees
- Define what it costs the division to provide various fee-related services
- Identify additional revenue potential
- Provide recommendations
- Develop revenue projections based on recommended increases (or decreases) to fees.

The information summarized in this report addresses each of these issues and provides the city with the tools necessary to make informed decisions about any proposed fee adjustments.

Methodology

MGT's standard approach for analyzing the cost of providing fee-related services is commonly referred to as a "bottom-up" approach. The bottom-up approach was used to analyze all of the Department's fees for service. A general description of the bottom-up approach is as follows:

1. Identify all direct staff time spent on the fee related activity or service

MGT conducted a series of meetings to identify the staff that will work directly on the TRL applications. Once all direct staff were identified, subject matter experts estimated how much



time they anticipate those employees will spend, on average, performing each particular fee service.

Developing time estimates can be challenging and staff should be commended for the time and effort they put into this.

2. Calculate direct cost of the staff time for each fee using productive hourly rates

“Productive hours” means the time staff are in their office or in the field. A full-time City employee typically has 2,080 paid hours per year (40 hours x 52 weeks). However, cost studies reduce this number to account for non-productive hours (sick leave, vacation, holidays, training days, meetings, etc.). MGT calculates the productive hourly rate for each staff classification by dividing annual salary and benefits by annual productive hour figures. The average productive hours for the City’s staff providing services ranged was 1,620 hours per year.

3. Determine indirect or “overhead” costs

Generally, there are two types of indirect costs: department (or division)-specific and citywide overhead. These indirect costs are allocated across fee services in order to capture the full cost of providing the service. If a department performs non-fee related services, a commensurate amount of indirect cost is segregated and not allocated to the fee related services.

Departmental overhead costs – these costs include managers, supervisors, and support staff as well as other operational costs, such as materials and supplies that are incurred for a common purpose and not readily assigned to a particular service or program.

Centralized overhead costs – each department that charges fees receive support from central departments whose main function is to keep the City running. An example of a central service department is Human Resources. These costs are distributed to each receiving department through the cost allocation plan.

4. Identify full total costs

Once all direct and indirect costs are calculated, MGT was able to identify the full cost for each fee proposed. Legally, the City can charge any fee up to the maximum full cost calculated.

5. Costs and revenues are annualized by incorporating annual volume figures

Up to this point we have calculated fee costs and revenues on a per-unit basis. By incorporating projected annual volume figures into the analysis, we extrapolate the per-unit results into annual cost and annual revenue information. This annualization of results gives management an estimate of the fiscal impact of proposed fee adjustments.

Because annual volume will vary from one year to the next, these figures are estimates only. Actual revenue will depend on future demand levels and collection rates.

6. Recommend fee adjustments

MGT provides fee adjustment recommendations based on full cost information, staff recommendations and industry best practices. Of course, MGT’s recommendations are advisory in nature only, ultimately the City Council must decide what fee levels are appropriate.



Legal, Economic and Policy Considerations

The following legal, economic and policy issues help illustrate these considerations.

Legal restrictions – In California, fees are limited to the reasonable cost of providing a service. Proposition 26 was approved by California voters in November of 2010 and clarified which charges are considered fees and which are considered taxes. The significance of this distinction is that fees may be raised by Council action up to the limit of actual cost, whereas taxes may not be increased without a majority vote of the public.

Community benefit - If a fee service benefits the community as a whole to some extent, it is appropriate to subsidize a portion of the fee.

Private benefit - If a fee primarily benefits the fee payer, the fee is typically set at, or close to, 100% full cost recovery.

Service driver - In conjunction with the third point above, the issue of who is the service recipient versus the service driver should also be considered.

Managing demand - Elasticity of demand is a factor in pricing certain City services; increasing the price of some services results in a reduction of demand for those services, and vice versa.

Incentives - Fees can be set low to encourage participation in a service.

Disincentives - Penalties can be instituted to discourage undesirable behavior.



Study Findings and Recommendations

The study's primary objective is to provide the City's decision-makers with the data needed to make informed pricing decisions. This report details the full cost of services and presents recommended fee amounts and their fiscal impact. Recommendations are based on careful consideration of the results of the cost analysis.

The exhibit below displays the recommended cost recovery levels for the newly established Tobacco Retail License fees. It is important to know that these are brand new fees that do not currently collect any revenues.

Department/Services	Current				Recommended			
	(A) Full Cost User Fee Services	(B) FY2023/2024 Estimated Revenue	(C) Current Subsidy		(D) Cost Recovery Policy	(E) Increased Revenue		
Code Enforcement - Tobacco Retail License (TRL) Services	\$ 449,455	\$ -	0%		0%	\$ 449,455	100%	\$ 449,455
Totals:	\$ 449,455	\$ -	0%	\$ -	0%	\$ 449,455	100%	\$ 449,455

Column A, Fee Costs – \$449,455 of the department’s costs are related to Tobacco Retail License (TRL) fee services. It is this \$449,455 that is the focus of this study and represents the total potential for TRL fee-related revenues for the City. The annual cost was derived from using the current number of licensed retailers.

Column B, Current Revenues – The City does not currently generate any revenues for these services. These are new fees being implemented.

Column C, Current Subsidy – The City does not currently provide these services. There is no current subsidy.

Column D, Recommended Recovery – If fee recommendations are implemented, the City would generate TRL fee revenues to \$449,455 annually.

Column E, Increased Revenue – If recommendations are implemented, the Code Enforcement division would see estimated annual revenue increase of \$449,455 related to TRL fees.

Section II - Fee Summary Highlights

Below is a brief summary of findings. Detailed results can be found in table on page 7 of this report.

Code Enforcement – Tobacco Retail License

The City is establishing Tobacco Licensing, Education, Compliance, & Enforcement Program to regulate & prevent the sale & distribution of tobacco products to minors in Vallejo. The proposed Tobacco Retail Licensing Ordinance will: Require tobacco retailers to pay an annual fee & obtain a license; Ensure compliance with tobacco laws; Impose fines/penalties for violations; Prosecute violations; distance requirements for retailers from sensitive receptors; a flavor ban; 4-stage penalty for non-compliant retailers; authorization for Code Officers to ensure compliance; & decoy operations to prohibit access to minors.

MGT worked with Code Enforcement and City Attorney staff to establish Tobacco Retail License fees. The following fee categories are proposed:

- Tobacco Retail License - Initial
- Tobacco Retail License - Renewal
- Tobacco Retail License - Annual Inspection

Recommendations going Forward

MGT recommends that the City build on its investment in this cost-of-service analysis by continuing to analyze its fees and charges whether this is done by staff or outside consultants. Once the commitment is made to understand the full cost of providing services, it is important to review and update the analysis in order to keep pace with changes in service delivery, staffing changes, and demand levels.

Most of our agencies ask us at the conclusion of the study: how often should this type of study be undertaken? Our advice is to perform this detailed analysis at least every three but not more than five years, with minor adjustments in the non-study years (to keep pace with economic impacts). MGT recommends the City apply an inflation adjustment to fees annually, based CPI from All Urban Consumers for the San Francisco Bay area to keep pace with inflation. The industry best practice is to apply this index once per year as part of the City's annual budget process. This is particularly helpful once an agency has chosen to adopt a cost recovery policy – whether 100% of cost or something less – in order to keep fees at the desired level.

Considering these are new fees, MGT strongly recommends for staff to review volumes/time data/revenues a year after the program/fee services have been implemented.



The following table illustrates our fee summary findings for the City of Vallejo's Code Enforcement Division – Tobacco Retail License fees

Agency: City of Vallejo

Department: Tobacco Retail License (TRL)

Fiscal Year: 2024

Ord	Service Name	Fee Description	Annual Volume	Current							Recommendations			
				Per Unit			Annual				Per Unit		Annual	
				Current Fee	Full Cost	Current Recover	Annual Cost	Annual Revenue	Annual Subsidy	Recovery Level	Recommended Fee	Annual Revenue ²	Increased Revenue	
1	Tobacco Retail License - Initial	New Fee	96	\$ -	\$ 2,998	0%	\$ 287,833	\$ -	\$ 287,833	100%	\$ 2,998.26	\$ 287,833	\$ 287,833	
2	Tobacco Retail License - Renewal	New Fee	96	\$ -	\$ 543	0%	\$ 52,105	\$ -	\$ 52,105	100%	\$ 542.76	\$ 52,105	\$ 52,105	
3	Tobacco Retail License - Annual Inspection	New Fee	96	\$ -	\$ 1,141	0%	\$ 109,517	\$ -	\$ 109,517	100%	\$ 1,141	\$ 109,517	\$ 109,517	
Total User Fees							\$449,455	\$0	\$449,455		\$449,455	\$449,455		
% of Full Cost							0%	100%			100%	0%		

