



**Performance Audit  
Street-Related Permit Fees Need  
Review and Adjustment**

April 2015



**Office of the City Auditor**

**City of Kansas City, Missouri**

4-2015



CITY OF FOUNTAINS  
HEART OF THE NATION



KANSAS CITY  
MISSOURI

## Office of the City Auditor

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April 23, 2015

Honorable Mayor and Members of the City Council:

This audit of the Public Works Department focuses on whether street-related permit fees are regularly reviewed and updated.

Street-related permit fees have not been updated in accordance with recommended practices and as authorized by city code. As a result, the Public Works Department has forgone revenue. The regular review of costs of service and adjustments to permit fees should allow for more gradual increases in fees and better match street fee revenues and expenses.

Consistency in ordinances and accounting practice is needed. All street-fee related revenue is going into the street maintenance fund although code sections and a council resolution specify specific uses for certain fees.

Requests to waive some street-related permit fees do not meet criteria established in city code. Street-related fees are authorized through legislation passed by the City Council. Public Works street-related fees should be waived only as authorized in the city code or by the full Council.

We make recommendations to strengthen controls over street-related permit fees and ensure the city is charging the full amount of the fee it is authorized to do by periodically reviewing and updating fees; following specified code requirements; and correcting code methodology when instructions on how to compute a fee are in error. We also recommend clarifying into which fund revenues from street-related permits should be deposited and referring street fee permit waiver requests that do not meet code-established criteria to the City Council.

The draft report was made available to the city manager and the director of public works on March 20, 2015 for review and comment. Management's response is appended. We would like to thank the Public Works and Finance Departments for their assistance and cooperation during this audit. The audit team for this project was Nancy Hunt and Julia Webb-Carter.

A handwritten signature in blue ink that reads "Douglas Jones". The signature is fluid and cursive.

Douglas Jones  
City Auditor



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# Street-Related Permit Fees Need Review and Adjustment

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## Introduction

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### Objective

We conducted this audit of Public Works street-related permit fees under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.<sup>1</sup>

This report is designed to answer the following question:

- Are street-related permit fees regularly reviewed and updated?

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### Scope and Methodology

Our review focuses on the ordinances that set Public Works fees for street-related permits. Our audit methods included:

- Reviewing selected ordinances for street-related permits administered by the Public Works Department to determine the current charges and when the charges were last revised, and to identify the method specified for revising each fee.
- Interviewing Public Works staff to identify how fees are administered, the amount of the fees, and staff concerns about current fees.

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

- Obtaining information from the Bureau of Labor Statistics on current and past price indices named in the Code of Ordinances to identify potential opportunities for fee adjustments.
- Identifying recommended practices on updating government charges and fees and comparing them to city practices.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. No information was omitted from this report because it was deemed privileged or confidential.

In conducting our work, we identified issues related to department practices and code language regarding permits. Because these issues were not related to our objective, we communicated them to the director of public works in a separate memorandum.

We issued another memorandum to the director related to projected fee increases and a Code of Ordinances reference to a nonexistent producer price index before the release of this report to give the director an opportunity to make fee adjustments in time for fiscal year 2016. The details of the projected fee increases and nonexistent producer price index can be found on pages five through nine in this report.

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## **Background**

### **Public Works Manages Right-of-Way Permits and Fees**

City departments, utilities, contractors, and the public who construct, improve, work on, or occupy city rights-of-way must obtain appropriate permits.<sup>2</sup> The Public Works Department's Traffic Permits Section issues a variety of street-related permits including those for excavation, street plates, parades, and block parties. (See Exhibit 1.)

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<sup>2</sup> Right-of-way is "an area of land designated and reserved for public travel whether vehicular or pedestrian and includes a street, a median, a parkway, pedestrian sidewalk and bikeway." Code of Ordinances, Kansas City, Missouri, Sec. 70-39(a).



Exhibit 1. Public Works Street-Related Permit Fees

Permit Type	Code Section	Fee Adopted	Fee Amount
Residential Parking	70-537	1993	<ul style="list-style-type: none"> <li>• Annual permit: \$10.</li> <li>• Temporary 7-day permit: \$2.</li> <li>• Additional temporary 7-day permit for same period: \$0.</li> </ul>
Degradation	64-118	2001	<ul style="list-style-type: none"> <li>• Fee based on 2002 table of costs.</li> </ul>
Angle Loading	70-563	2002	<ul style="list-style-type: none"> <li>• Temporary permit: \$6 per day.</li> <li>• Permanent permit: \$7-\$12 per linear foot.</li> </ul>
Block Party	70-39	2002	<ul style="list-style-type: none"> <li>• Permit application for non-major streets: \$0.</li> </ul>
Dumpster and Trailers	70-39	2002	<ul style="list-style-type: none"> <li>• Application fee: \$50 + traffic control permit.</li> <li>• Application fee: \$0 with a traffic control fee of \$10 per day.</li> </ul>
Traffic Control	70-39	2007 2002 2007 2002 1995 2002 2007 2002	<ul style="list-style-type: none"> <li>• Application fee: \$75.</li> <li>• Preparation of traffic control plan: direct and overhead costs with a \$150 minimum.</li> <li>• Unit cost used in closure formula: \$0.15 per linear mile.</li> <li>• Alley blocked used in closure formula: \$1.50 per day or portion of day.</li> <li>• Parking meter blocked used in closure formula: \$3 per meter per day.</li> <li>• Parking lanes without meters or sidewalk/non-roadway area of closed right-of-way used in closure formula: \$0.60 per day per 20 feet.</li> <li>• Annual traffic control permit for each vehicle used in partial blockage of the right-of-way: \$300.</li> <li>• Plumbing traffic control permit, non-major street, in conjunction with excavation permit: \$25.</li> </ul>
Excavation	64-118	2001	<ul style="list-style-type: none"> <li>• \$143 per 100 lineal foot of excavation or portion thereof.</li> </ul>
Loading Zone	70-562	2007	<ul style="list-style-type: none"> <li>• Application fee: \$15.</li> <li>• Fees of \$5-\$17 per foot.</li> </ul>
Hauling	64-8	2007	<ul style="list-style-type: none"> <li>• \$10 + \$0.003/cubic yard as estimated by the engineer or architect.</li> </ul>
Street Plates	64-426	2008	<ul style="list-style-type: none"> <li>• Application fee: \$25.</li> <li>• Application fee if placed before obtaining permit and not an emergency: \$100.</li> <li>• \$.43 per sq. ft. of plate per day from day 22 on and doubled if placed before obtaining permit in non-emergency.</li> </ul>
Parades	70-263	2012	<ul style="list-style-type: none"> <li>• Application fee: \$100.</li> </ul>
Oversized loads	70-913 <sup>3</sup>	unknown	<ul style="list-style-type: none"> <li>• 1-trip permit for single route: \$35.</li> <li>• 6-month permit for multiple trips over single route: \$65.</li> <li>• 6-month permit for multiple trips by a triple unit over single route: \$65.</li> </ul>

Source: City Code of Ordinances and Public Works Department employees.

<sup>3</sup> While code section 70-913(e) gives the director the authority to collect a service fee, no actual fee amounts are included in the ordinance. The fee rates were obtained from department staff.

*Street-Related Permit Fees Need Review and Adjustment*

Compliance with street-related permitting ordinances helps minimize disruptions to the public and improve traffic and worker safety. Public Works-issued permit fees are charged to recover costs associated with managing the permit-related processes, occupying the public right of way, and physically damaging or causing deterioration of the right-of-way.

In fiscal year 2014, Public Works issued almost 18,800 permits and collected almost \$2.53 million in permit revenue.

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## Findings and Recommendations

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### Summary

Public Works street-related permit fees have not been regularly updated in accordance with recommended practices and as authorized by city code. One fee adjustment could not be made because the producer price index specified in the Code of Ordinances does not exist. We recommend periodically reviewing and updating street-related fees; following specified code requirements; and determining the correct price index. Determining the cost of services and adjusting permit fees on a regular basis should allow for more gradual increases in fees and generate revenue to cover costs.

All street-fee related revenue is going into the street maintenance fund although some sections of the Code of Ordinances and a resolution specify specific uses for some fees. Discrepancies between code-specified uses and depositing all fee revenues into a single fund need to be examined. Street permit fees should only be waived by the Public Works Department when specifically authorized by city code. The public works director should refer waiver requests that do not meet code-established criteria to the City Council.

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### Street Permit Fees Are Not Regularly Updated; Revenues Could Be Higher

Public Works street-related permit fees have not been regularly updated in accordance with recommended practices and as authorized by city code. Some fees were not increased even though city code described how and when adjustments were to be made. One fee adjustment could not be made because the city's code required the use of a producer price index that does not exist. The regular review of fees and costs of services could have permitted a gradual increase in fees and the capture of additional fee revenues to cover costs.

### **Street-Related Fees Are Not Routinely Examined**

Many of the fees for street-related permits issued by Public Works have not been updated in years. While some code sections specify when and how street-related permit fees are to be adjusted, most do not. The permit fees or fee components in most of the code sections that do not specify when to adjust fees were last increased in 2002 and 2007. Some, like residential parking permits, have not been adjusted since 1993. Although parking meter fees have increased over the years, the parking meter occupancy component used in calculating the price of a traffic control permit has remained the same since 1995.

The Government Finance Officers Association recommends that organizations periodically review and update their fees and charges based on factors such as inflation, cost increases, and the adequacy of cost recovery, among other considerations.<sup>4</sup> Reviewing and adjusting permit fees regularly can prevent the uneven impact of larger adjustments made less frequently.

In order to maintain a fee structure that places the cost associated with blocking, damaging, or repairing and replacing streets on the responsible parties, the director of public works should periodically review street-related permit fees that are not linked to automatic adjustments and propose updated fees for City Council consideration and approval.

### **Element of Traffic Control Fees Not Increased Annually as Required**

The unit cost used to calculate traffic control permit fees has not been adjusted annually as required by the Code of Ordinances. City code requires that the unit cost used in the traffic control permit fee formula “be adjusted annually to the nearest cent...to reflect the change in the consumer price index (all items/all urban consumers/Kansas City, Missouri/Kansas) published by the United States Department of Labor, Bureau of Labor Statistics.”<sup>5</sup> The current unit cost is \$.15 per linear mile but should be \$.17 per linear mile based on the change in the annual consumer price index through 2014.

A 2-cent increase in the unit cost would result in a 13 percent increase in permit revenues computed for the detour component of traffic control fees. When an authorized change to the unit cost is not taken, the department loses revenue that could have been used to cover the costs of traffic control activities. In order to comply with city code and use the

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<sup>4</sup> *Best Practice: Establishing Government Charges and Fees*, Government Finance Officers Association, February 2014, p. 1.

<sup>5</sup> Code of Ordinances, Kansas City, Missouri, Sec. 70-39(a).

proper value for unit cost when calculating traffic control permit fees, the director of public works should calculate the unit cost in the traffic control closure formula annually and adjust it as required by code.

### **Street Plate Fees Could Have Been Increased**

Although the director of public works could have increased street plate permit fees, the fees have remained unchanged since 2008. City code gives the director of public works the authority to adjust street plate fees “to reflect the change in the consumer price index (all items/all urban consumers/Kansas City, Missouri Kansas) published by the United States Department of Labor, Bureau of Labor Statistics... annually... in conjunction with the adoption of the annual budget by filing a notice with the city clerk.”<sup>6</sup>

Current street plate fees include an application fee of \$25 and a daily fee of \$0.43 per square foot beginning on the 22<sup>nd</sup> calendar day from and including the date on which the permit was issued, with higher fees when plates are placed before an application is submitted in non-emergency situations. Based on the 2014 annual consumer price index, the application fee for fiscal year 2016 could be increased to \$27.67 and the square foot fee to \$0.48.

Street plate fees could have increased in most years since the fee was set in 2008. Had the fees been increased for fiscal year 2014, the Public Works Department could have generated an additional \$21,319 to offset traffic control costs. In order to keep fees in line with inflation and to help cover traffic control costs, the director of public works should annually review, evaluate, and consider adjusting the street plate fees as part of the department’s annual budget process.

### **Excavation Fee Code Needs Clarification**

City code gives the city manager the authority to adjust excavation permit fees by a producer price index that does not exist. According to city code, the city manager has the authority to annually adjust excavation fees based on the “producer price index (all commodities, Kansas City, Missouri Kansas) published by the United States Department of Labor, Bureau of Labor Statistics... in conjunction with the adoption of the annual budget ...”<sup>7</sup> However, there is not an actual producer price index with the name in the code.

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<sup>6</sup> Code of Ordinances, Sec. 64-426(d).

<sup>7</sup> Code of Ordinances, Sec. 64-118(e).

In order to regularly evaluate the fee structure for excavations, the director of public works should determine which Bureau of Labor Statistics price index was intended to be used to adjust the excavation fee and submit an ordinance for City Council consideration to amend the Code of Ordinances to reflect the appropriate index.

In 2007, Ordinance 070529 set excavation fees beginning in June 2007, May 2008, and May 2009. Since 2009, the city has charged \$143 per 100 linear foot, or portion thereof. The nonrefundable fee is supposed to be “sufficient to defray the expenses of investigating the application, issuing the permit and inspecting the excavation site”<sup>8</sup> and is to be reduced if the costs fall below the fee charged.<sup>9</sup>

If the fiscal year 2014 excavation fee rate charged had been adjusted to reflect inflation based on the consumer price index (all items/urban consumers/Kansas City, Missouri/Kansas), the department would have collected additional revenues of about \$77,450 for general fund purposes in fiscal year 2014.

To ensure that fees keep pace with costs, the city manager should annually determine the total cost, including direct and indirect costs, of investigating excavations, issuing excavation permits, and inspecting excavation sites; compare the total costs to the current fee; and when appropriate, adjust the excavation fee.

### **Degradation Fee Tables Need Updating**

Degradation fees have remained unchanged since 2002, but costs have increased. Degradation fees were established to recover some of the costs associated with the decreased life of pavement caused by cutting the pavement. City code authorizes the public works director to publish the tables of values used to calculate the degradation fee.<sup>10</sup> The table values are based on the depreciated cost per square foot for street construction, and maintenance costs for mill and overlay and slurry seal. The table values for these construction and maintenance activities have not increased in the 12 years since they were originally published. While the code does not specify how or how frequently the costs in the tables should be updated, the second page of the Degradation Costs tables published by the Public Works Department directs that the “Table of construction and maintenance cost shall be reviewed and updated annually by the director of public works.”

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<sup>8</sup> Code of Ordinances, Sec. 64-118(a).

<sup>9</sup> Code of Ordinances, Sec. 64-118(e).

<sup>10</sup> Code of Ordinances, Sec. 64-118(c).

To better reflect the cost of the damage and shortening of pavement life by excavation cuts in paved portions of city-owned property, rights-of-way, or easements used as streets or alleys, the director of public works should update and publish annually the tables of values used to calculate the degradation fee.

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## **Consistency in Ordinances and Accounting Practice Needed**

The city may not be using some street-related fee revenues for their intended purpose. Some city code sections specify that fees from particular street-related permits will be used for traffic control purposes. The section for street degradation fees specifies that fee revenue goes to the general fund, although, the council also adopted a resolution on the same day as the ordinance expressing the council's intent that degradation fees be used for the city's street preservation program. Currently, all street-related permit fees are going into the street maintenance fund.

The street maintenance fund was established in 2012 after voters approved earmarking 7.5 percent of net annual earnings tax receipts for a dedicated street maintenance fund. It is not clear whether depositing revenues from street-related fees into the street maintenance fund is consistent with city code and resolution language.

In order to ensure consistency in the city's regulations and practices, the director of public works should work with the city attorney to determine whether code language regarding the use of revenues from street-related fees should be modified.

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## **Fee Waiver Requests Not Always Appropriate**

The director of public works is sometimes asked to grant a fee waiver that does not meet code criteria. Street-related fees are authorized through legislation passed by the City Council. City code gives the director of public works the authority to waive street plate permit fees<sup>11</sup> and some other fees can be waived under certain circumstances.<sup>12</sup> Management, staff in other departments, individual council members or

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<sup>11</sup> Code of Ordinances Sec. 64-426(c). In addition, Sec. 70-39(m) automatically waives traffic control permit fees for city projects.

<sup>12</sup> Code of Ordinances Sec. 70-39(m).

their aides, and others have made requests or directed that the Public Works Department waive fees for reasons not specifically authorized by city code. Waiving fees beyond those authorized is a decision to be made by the full council and reduces revenues for street-related activities which are already “chronically underfunded.”<sup>13</sup>

In 1997, the Council Ethics/Relations Committee was established “to develop guidance for the full City Council on the proper interaction between the council and city staff and to improve ethics in city government.”<sup>14</sup> The committee’s report reminded and reported that legislation, passed by the entire City Council, provides “direction to city staff on the operations of city government;”<sup>15</sup> cautioned that communications by councilmembers with staff could be misunderstood; and warned that it was inappropriate for an individual council member to give direction to city staff, and such actions were prohibited.

In order to follow code requirements and protect street-related revenues, the director of public works should waive fees only as authorized by code and refer requests to waive fees that do not meet code established criteria to the City Council.

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## **Recommendations**

1. The director of public works should periodically review street-related permit fees that are not linked to automatic adjustments and propose updated fees for City Council consideration and approval.
2. The director of public works should calculate the unit cost in the traffic control closure formula annually and adjust it as required by code.
3. The director of public works should annually review, evaluate, and consider adjusting the street plate fees as part of the department’s annual budget process.

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<sup>13</sup> Submitted Budget FY 2015-2016, page 220.

<sup>14</sup> *Report of the Council Ethics/Relations Committee*, Council Ethics/Relations Committee, February 1999, p. i.

<sup>15</sup> *Report of the Council Ethics/Relations Committee*, p. 3.



4. The director of public works should determine which Bureau of Labor Statistics price index was intended to be used to adjust the excavation fee and submit an ordinance for City Council consideration to amend the Code of Ordinances to reflect the appropriate index.
5. The city manager should annually determine the total cost, including direct and indirect costs, of investigating excavations, issuing excavation permits, and inspecting excavation sites; compare the total costs to the current fee; and when appropriate, adjust the excavation fee.
6. The director of public works should update and publish annually the tables of values used to calculate the degradation fee.
7. The director of public works should work with the city attorney to determine whether code language regarding the use of revenues from street-related fees should be modified.
8. The director of public works should waive fees only as authorized by code and refer requests to waive fees that do not meet code established criteria to the City Council.

*Street-Related Permit Fees Need Review and Adjustment*

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## **Appendix A**

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### **Management's Response**

*Street-Related Permit Fees Need Review and Adjustment*



## Public Works Department



DATE: April 17, 2015

TO: Douglas Jones, City Auditor

FROM: Sherri K. McIntyre, Director of Public Works *Sherri K. McIntyre*

SUBJECT: Street-Related Permit Fees Need Review and Adjustment Audit

We appreciate the review of the street-related permit fees and the comments that are contained within the audit and below are Public Works' comments regarding the finding within the audit.

### Recommendation responses

1. *The director of public works should periodically review street-related permit fees that are not linked to automatic adjustments and propose updated fees for City Council considerations and approval.*

We agree that we should be more diligent regarding the review and recommendation for raising fees. We have not raised fees in several years as outlined in the audit. During the recent recession we haven't considered raising fees. We have also had significant staff reduction especially in areas of management and support staff available to perform the reviews. Also during this period there were no wage increases or additional staff so the cost of business wasn't changing during much of the period to justify increased fees. We will focus resources to this area since it can be a revenue enhancing activity, especially with signs of increased street related construction activity.

2. *The director of public works should calculate the unit cost in the traffic control closure formula annually and adjust it as required by code.*

We agree that we will address this on an annual basis.

3. *The director of public works should annually review, evaluate, and consider adjusting the street plate fees as part of the department's annual budget process.*

We agree, and will recommend an annual adjustment of these fees based on the consumer price index identified in the code of ordinance, as part of the annual budget.

4. *The director of public works should determine which Bureau of Labor Statistics price index was intended to be used to adjust the excavation fee and submit an ordinance for City Council consideration to amend the Code of Ordinance to reflect the appropriate index.*

We agree. Excavation fees currently are defined to be adjusted based on Producer Price Index (PPI) and the audit indicates that an established PPI is currently not available. We will clarify that the PPI used for excavation fees will be based on PPI for construction. The PPI index has been adjusted for construction to a new PPI system defined as Final Demand-Intermediate Demand (FD-ID) aggregation system as of February 2014. (<http://www.bls.gov/ppi/fdidtransition.htm>) We will review and recommend changes as necessary the Code of Ordinance to reflect an appropriate and clearer defined index under

code section 64-118.

5. *The city manager should annually determine the total cost, including direct and indirect costs, of investigating excavations, issuing excavation permits and inspecting excavation sites: compare the total costs to the current fee: and when appropriate adjust the excavation fee.*

We agree. Public works on an annual basis evaluates the fees collected, and the cost of the indirect and direct costs for permit operations. This information is provided to the city manager during budget preparations, and excavation fees will be adjusted when appropriate.

6. *The director of public works should update and publish annually the table of values used to calculate the degradation fee.*

We agree, and all fees will be re-examined on an annual basis.

7. *The director of public works should work with the city attorney to determine whether code language regarding the use of revenues from street-related fees should be modified.*

We agree. Public works will coordinate with the city attorney, finance director, and city manager to determine the use of revenues associated with street-related fees, and code language will be recommended for modification if necessary.

8. *The director of public works should waive fees only as authorized by code and refer requests to waive fees that do not meet code established criteria to the City Council.*

We agree, and public works will follow the procedures identified in the code regarding the waiving of fees. We feel that the waiving of fees should be taken very seriously.

cc: Troy Schulte