

# SCHOOL IMPACT FEES

## ASSESSMENT

Release Date: February 27, 2019

Report No. 19-09

**City of Orlando**  
**Office of Audit Services and Management Support**

George J. McGowan, CPA  
Director

Co-source Partner  
KPMG



## MEMORANDUM OF TRANSMITTAL

**To:** Chris McCullion, Chief Financial Officer  
Brooke M. Rimmer-Bonnett, Economic Development Director



**From:** George J. McGowan, CPA  
Director, Office of Audit Services and Management Support

**Dates:** February 27, 2019

**Subject:** School Impact Fees Assessment (Report No. 19-09)

Our co-source partner KPMG has performed an assessment of the full cost of the City staff collecting and processing school impact fees. The objective of this assessment was to identify salary costs, fringe benefit costs, operating costs, indirect costs and other applicable costs necessary to collect and administer the collection of school impact fees.

This review consisted of inquiries of City personnel and examinations of supporting documentation. It is substantially less in scope than an audit made in accordance with generally accepted government auditing standards. The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters may have come to our attention that would have been reported to you and our conclusions may have needed to be modified.

The following report contains the scope, approach and methodology used to determine the percentage cost of collecting and administering the school impact fee.

We appreciate the cooperation and courtesies extended by the management and staff of the Economic Development Department and other City departments who assisted during the course of this assessment.

GJM

c:

The Honorable Buddy Dyer, Mayor  
Jody Litchford, Deputy City Attorney  
Kevin Edmonds, Chief Administrative Officer  
Mike Rhodes, Economic Development Deputy Director  
Martin Carmody, Budget Division Manager



# The City of Orlando

## School Impact Fees Cost Report

February 18, 2019

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# I. Executive Summary

The *Florida Impact Fee Act* (Section 163.31801, Florida Statutes) provides a set of guidelines that a county or municipality must comply with when the respective entity adopts an impact fee. The Florida Impact Fee Act allows counties or municipalities to charge administrative costs for the collection of impact fees if the administrative charges are “actual costs.”

Orange County, Florida (“the County”) and the School Board of Orange County (“the School Board”) entered into an agreement - *Interlocal Agreement between Orange County, Florida and the School Board of Orange County Regarding the Collection of Certain Development-Related Fees* – that “requires the County to collect the school impact fees and transfer such school impact fees to the School Board” and allows the County to “retain 3% of the school impact fees collected by the County to reimburse the County for costs incurred in collecting and assessing school impact fees.”

Pursuant to these agreements, the City of Orlando (“the City”) collects school impact fees within the City limits in Orange County. In the past, the City charged the School Board 3% of the school impact fees collected to reimburse the City for costs incurred. In an effort to understand the City’s true cost of collecting school impact fees, the City engaged KPMG LLP (“KPMG”) to develop a cost report (“the Cost Report”) which outlines the City’s full cost of collecting school impact fees. The Cost Report will provide a full cost of service analysis and identify salary costs, fringe benefits costs, operating costs, indirect costs, and other applicable costs for activities necessary to collect and administer school impact fees.



## II. Scope and Approach

### Scope

The Cost Report provides a full cost of service analysis and identifies salary costs, fringe benefits costs, operating costs, indirect costs, and other applicable costs for activities necessary to collect school impact fees. Costs incurred for collection of school impact fees are not limited to a single cost objective or Department but are based on multi-departmental efforts and costs attributed to providing School Impact Fee administration.

### Approach

KPMG used a four-phased approach to meet the objective for the engagement. The phases are categorized as project initiation, fieldwork, data analysis, and reporting. Please note activities within each phase were performed concurrently to help gain efficiencies throughout the project. A summary of each phase is provided below.

#### Phase I: Project Initiation

The project initiation included a kick-off meeting between KPMG and the City. The meeting introduced key members of the project team; reaffirmed project goals; and confirmed the project scope, work plan, timeline, and deliverables.

#### Key Activities

- Conducted a kick-off meeting with the City project sponsors to confirm the project objectives, approach, timeline, and assumptions
- Reviewed the project charter with the City project sponsors
- Discussed information and documentation availability and needs
- Confirmed that the City had not previously developed a similar school impact fees cost study
- Agreed to use fiscal year 2017 data points for the cost analysis

KPMG conducted a kick-off meeting during the project initiation phase, as outlined below in Figure 1.

**Figure 1**

| Title           | Date             | Agenda           | Attendees   |
|-----------------|------------------|------------------|---|
| Kickoff Meeting | December 3, 2018 | Kick-off project | <ul style="list-style-type: none"><li>• The City</li><li>• KPMG</li></ul> |

## Phase II: Fieldwork

KPMG submitted a document and information request list to the City to collect qualitative and quantitative information. KPMG conducted interviews with key City personnel to understand the level of time and effort and job functions associated with the collection of school impact fees. The information collected was reviewed and analyzed within the next phase of the engagement.

### Key Activities

- Submitted an information and documentation request list
- Scheduled and conducted interviews with key personnel involved in the collection and administration of school impact fees
- Reviewed the *Florida Impact Fee Act*
- Reviewed the *Interlocal Agreement between Orange County, Florida and the School Board of Orange County Regarding the Collection of Certain Development-Related Fees* dated April 20, 2010
- Reviewed prior cost analyses on the County's collection and administration of school impact fees
- Obtained time and effort estimations and descriptions of tasks performed for each position
- Obtained fiscal year 2017 school impact fee revenue figure from City Controller
- Followed up with key City personnel to confirm time and effort estimations and descriptions of tasks performed for each position

KPMG conducted multiple meetings during the fieldwork phase. These meetings with the City as well as the topics discussed are outlined below in Figure 2.

**Figure 2**

| Title                   | Date                    | Agenda   | Attendees   |
|-------------------------|-------------------------|--|---|
| Fieldwork Interviews    | December 4, 2018        | Obtain time and effort estimations and descriptions of tasks performed by personnel;<br>Gain understanding of costs associated with school impact fees process | <ul style="list-style-type: none"><li>• Mike Rhodes, Deputy Director EDV</li><li>• Rosa Akhtarkhvari, CIO</li><li>• Lusbeth Perez, Fiscal Manager</li><li>• Yolanda Blanco, Fiscal Coordinator</li><li>• Lilowtie Narain, Accounting Specialist Sr.</li><li>• Michelle Robinson, Planner</li><li>• Jason Wojkiewiz, Budget Analyst</li><li>• Elisabeth Dang, Chief Planner</li><li>• Doug Horner, Accounting Sr.</li><li>• William Spinelli, Controller</li><li>• Keith Grayson, Chief Plans Examiner</li></ul> |
| Follow Up Communication | December – January 2019 | Confirm time and effort estimations; confirm personnel involved in process   | <ul style="list-style-type: none"><li>• Mike Rhodes, Deputy Director EDV</li><li>• Lusbeth Perez, Fiscal Manager</li><li>• William Spinelli, Controller</li><li>• Keith Grayson, Chief Plans Examiner</li></ul>   |

During the fieldwork phase, KPMG documented the roles and responsibilities of City personnel involved in the administration and collection of school impact fees, as outlined in Figure 3.



**Figure 3**

| Title                         | Roles and Responsibilities  |
|-------------------------------|---|
| Accounting Clerk              | <ul style="list-style-type: none"> <li>• Researches cases in permitting software for outstanding school impact fees</li> <li>• Collects school impact fees</li> <li>• Assists customers with school impact fee inquiries regarding payments or refunds</li> </ul>   |
| Accounting Specialist Senior  | <ul style="list-style-type: none"> <li>• Assists customers with school impact fee inquiries regarding payments or refunds</li> <li>• Researches and prepares financial documentation to support refund requests</li> <li>• Processes refunds in information technology system through ad hoc payment transactions when the original payment was completed at cashier's office</li> <li>• Processes refunds in information technology system through ad hoc bank transactions when original payments were completed online</li> <li>• Supports cashiers</li> </ul>   |
| Chief Planner                 | <ul style="list-style-type: none"> <li>• Functions as a liaison between the Planning Department and the School District</li> <li>• Ensure coordination with the School District for projects</li> <li>• Communicates with potential applicants/pre-application process</li> <li>• Reviews the Planner's work as it relates to school impact fees</li> <li>• Performs project closeout then moves project forward</li> </ul>   |
| Chief Plans Examiner          | <ul style="list-style-type: none"> <li>• Receives enhancement letters issued by Orange County and associates the letter with a project in the City's information technology system</li> </ul>   |
| Development Review Technician | <ul style="list-style-type: none"> <li>• Reviews multi-family and townhome plans</li> </ul>   |
| Fiscal Coordinator            | <ul style="list-style-type: none"> <li>• Runs monthly reports in information technology system and permitting software</li> <li>• Reconciles information technology system to permitting software</li> <li>• Researches use type in the building case</li> <li>• Makes adjustments, as needed, to balance monthly revenue</li> <li>• Prepares reports to support the School Board payment</li> <li>• Requests transfer from the Finance Department to pay the School Board</li> <li>• Submits an ad hoc payment transaction in information technology system to record payment to the School Board</li> <li>• Provides reports to the School Board regarding monthly payments</li> <li>• Assists the School Board on annual audits</li> <li>• Assists customers with school impact fee inquiries regarding payments or refunds</li> <li>• Supports cashiers</li> </ul>  |
| Fiscal Manager                | <ul style="list-style-type: none"> <li>• Reviews refund requests in the system</li> <li>• Researches payments, reasons of requests, and submits adjustments, as needed</li> <li>• Prepares documentation to support refunds when the original payment was completed online</li> <li>• Oversees cashing office including collections of school impact fees payments and merchant fees</li> <li>• Processes refunds into merchant services</li> <li>• Reviews and approves ad hoc bank transactions and ad hoc payments in information technology system to record refunds</li> <li>• Reviews and approves monthly reconciliation between information technology system and permitting software</li> <li>• Reviews and approves ad hoc payment transactions in information technology system to authorize a transfer to the School Board</li> <li>• Assists and coordinates the School Board with Annual Audits</li> <li>• Assists City customers on school impact fees inquiries regarding payments and refunds</li> </ul> |



| Title   | Roles and Responsibilities   |
|---------|--|
| Planner | <ul style="list-style-type: none"> <li>• Researches cases in permitting software for outstanding school impact fees</li> <li>• Collects school impact fees</li> <li>• Assists customers with school impact fee inquiries regarding payments or refunds</li> <li>• Explains process to applicant in pre-application meeting or phone call</li> <li>• Coordinates submittal</li> <li>• Engages in project closeout</li> <li>• Explains process to applicant in pre-application meeting or phone call</li> <li>• Coordinates submittals</li> <li>• Engages in project closeout</li> <li>• Performs research to check for an agreement and determine the correct rate and number of units prior to entering into system</li> <li>• Explains process to applicant in pre-application meeting or phone call</li> <li>• Coordinates submittal</li> <li>• Engages in project closeout</li> <li>• Sends letter ("Application for Capacity Determination and Concurrency Recommendation") after researching how applicant's increased capacity affects school impact fees</li> </ul> |

## Phase III: Data Analysis

KPMG analyzed the information and data collected during fieldwork to quantify the City's full cost of collecting school impact fees. KPMG reviewed and analyzed personnel time and effort, compensation costs (salary and fringe benefits), operating costs, and indirect costs to identify the City's full-cost of collecting school impact fees.

### Key Activities

- Reviewed and analyzed personnel time and effort, compensation costs (salary and fringe benefits), operating costs, and indirect costs to identify the City's full-cost of collecting school impact fees
- Incorporated the following documents into the study:
  - Fiscal year 2017 full-time equivalent report
  - Fiscal year 2017 indirect cost allocation plan
- Confirmed data points and chart of accounts with the City of Orlando Office of Management and Budget
- Obtained approval for the time and effort methodology

KPMG conducted multiple meetings during the data analysis phase. These meetings with the City as well as the topics discussed are outlined below in Figure 4.

**Figure 4**

| Title            | Date             | Agenda                                  | Attendees  |
|------------------|------------------|---|--|
| Phone Meeting    | January 7, 2019  | Confirm data points & chart of accounts | <ul style="list-style-type: none"><li>• Martin Carmody, Budget Manager</li><li>• Ricky Vanderoef, Budget Analyst</li></ul> |
| Phone Meeting    | January 16, 2019 | Review methodology                      | <ul style="list-style-type: none"><li>• Mike Rhodes, Deputy Director EDV</li></ul>   |
| Fieldwork Review | January 22, 2019 | Review preliminary results              | <ul style="list-style-type: none"><li>• Mike Rhodes, Deputy Director EDV</li></ul>   |
| Fieldwork Review | January 22, 2019 | Review merchant fees                    | <ul style="list-style-type: none"><li>• Lusbeth Perez, Fiscal Manager EDV</li></ul>  |

## Phase IV: Reporting

KPMG provided a draft Cost Report to the City for review and feedback on February 08, 2019. The City provided written feedback on the draft Cost Report on February 14, 2019. KPMG then addressed and incorporated the City's feedback and provided the final Cost Report on February 18, 2019.

### Key Activities

- Issued draft Cost Report to the City
- Received written feedback on draft Cost Report from the City
- Addressed and incorporated City feedback into draft Cost Report
- Issued the final Cost Report to the City

KPMG did not conduct in-person meetings with the City during the reporting phase. KPMG communicated with the City via email correspondence as outlined below in Figure 5.

**Figure 5**

| Title                | Date              | Agenda                             | Attendees   |
|----------------------|-------------------|------------------------------------|---|
| Email Correspondence | February 08, 2019 | Issue draft Cost Report            | <ul style="list-style-type: none"><li>• George McGowan, Director, Audit Services and Management Support</li><li>• Mike Rhodes, Deputy Director EDV</li><li>• KPMG</li></ul> |
| Email Correspondence | February 14, 2019 | City feedback on draft Cost Report | <ul style="list-style-type: none"><li>• George McGowan, Director, Audit Services and Management Support</li><li>• Mike Rhodes, Deputy Director EDV</li><li>• KPMG</li></ul> |
| Email Correspondence | February 18, 2019 | Issue final Cost Report            | <ul style="list-style-type: none"><li>• George McGowan, Director, Audit Services and Management Support</li><li>• Mike Rhodes, Deputy Director EDV</li><li>• KPMG</li></ul> |



# III. Cost Analysis

## Methodology

KPMG reviewed and incorporated the following costs to capture the City's actual cost of administering and collecting school impact fees:

- Salaries
- Fringe benefits
- Operating costs
- Indirect costs
- Merchant fees

KPMG conducted onsite interviews with City personnel to document their time and effort, expressed as annual hours, associated with the administration and collection of school impact fees. City personnel time and effort is the driver for allocating an equitable share of salaries, fringe benefits, operating costs, and indirect costs. KPMG allocated an equitable share of merchant fees based on the revenue of school impact fees as compared to the City's other revenues from fees collected. The following sections include an example to illustrate the methodology for allocating each cost.

## Costs

### Salaries

KPMG documented each individual's annual hours related to the administration and collection of school impact fees as a percentage of 2,080 hours per year. KPMG then applied this percentage to the respective individual's salary to allocate an equitable share of their salary to the City's total school impact fees cost.

- I.e., if an individual dedicated 208 annual hours to the administration and collection of school impact fees, KPMG allocated 10% of their salary to the City's total school impact fees cost, as outlined in Figure 6.

**Figure 6**

| Hours Allocated to School Impact Fees | Total Annual Hours | Percentage of Time and Effort | Salary   | Equitable Share of Salary Allocated |
|---------------------------------------|--------------------|-------------------------------|----------|-------------------------------------|
| 208                                   | 2080               | 10%                           | \$50,000 | \$5,000                             |

## Fringe Benefits

After allocating an individual's salary, KPMG then allocated an equitable share of fringe benefits, such as health insurance or workers compensation. KPMG allocated fringe benefits based on an individual's salary as a percentage of total salary within the individual's respective cost center.

- I.e., if an individual's annual salary was \$50,000 and their respective cost center included \$500,000 in annual salaries, KPMG allocated 10% of the cost center's fringe benefits to the respective individual. If the cost center included \$250,000 in fringe benefits, then \$25,000 in fringe benefits were allocated to the respective individual, as outlined in Figure 7.

**Figure 7**

| Annual Salary | Cost Center Total Annual Salary | Percentage | Cost Center Total Fringe Benefits | Individual's Fringe Benefits |
|---------------|---------------------------------|------------|-----------------------------------|------------------------------|
| \$50,000      | \$500,000                       | 10%        | \$250,000                         | \$25,000                     |

Upon calculating an individual's fringe benefits, KPMG then allocated a portion of the fringe benefits to the City's total school impact fees cost, based on their time and effort (208 hours), as outlined in Figure 8.

**Figure 8**

| Individual's Fringe Benefits | Percentage of Time and Effort | Equitable Share of Fringe Benefits Allocated |
|------------------------------|-------------------------------|--|
| \$25,000                     | 10%                           | \$2,500                                      |

## Operating Costs

KPMG allocated operating costs in a manner consistent with fringe benefits. Operating costs, such as books, training, or office supplies, were allocated based on an individual's salary as a percentage of total salary within the individual's respective cost center.

- I.e., if an individual's annual salary was \$50,000 and their respective cost center included \$500,000 in annual salaries, KPMG allocated 10% of the cost center's operating costs to the respective individual. If the cost center included \$100,000 in operating costs, then \$10,000 in operating costs were allocated to the respective individual. Figure 9 below outlines the methodology.

**Figure 9**

| Annual Salary | Cost Center Total Annual Salary | Percentage | Cost Center Total Operating Costs | Individual's Operating Costs |
|---------------|---------------------------------|------------|-----------------------------------|------------------------------|
| \$50,000      | \$500,000                       | 10%        | \$100,000                         | \$10,000                     |

Upon determining an individual's operating costs, KPMG then allocated a portion of the operating costs to the City's total school impact fees cost, based on their time and effort (208 hours), as outlined in Figure 10.

**Figure 10**

| Individual's Operating Costs | Percentage of Time and Effort | Equitable Share of Operating Costs Allocated |
|------------------------------|-------------------------------|--|
| \$10,000                     | 10%                           | \$1,000                                      |

### Indirect Costs

The City develops an annual indirect cost allocation plan to allocate City indirect central services, such as the City Attorney's Office or the Office of Management and Budget, to direct service cost centers, such as Permitting or Planning. KPMG allocated indirect costs in manner consistent with fringe benefits and operating costs. Indirect costs were allocated based on an individual's salary as a percentage of total salary within the individual's respective cost center.

- I.e., if an individual's annual salary was \$50,000 and their respective cost center included \$500,000 in annual salaries, KPMG allocated 10% of the cost center's incoming indirect costs to the respective individual. If the cost center's incoming indirect costs were \$80,000, then \$8,000 in incoming indirect costs were allocated to the respective individual. Figure 11 outlines the methodology.

**Figure 11**

| Annual Salary | Cost Center Total Annual Salary | Percentage | Cost Center Incoming Indirect Cost | Individual's Incoming Indirect Costs |
|---------------|---------------------------------|------------|------------------------------------|--------------------------------------|
| \$50,000      | \$500,000                       | 10%        | \$80,000                           | \$8,000                              |

Upon determining an individual's incoming indirect costs, KPMG then allocated a portion of the incoming indirect costs to the City's total school impact fees cost, based on their time and effort (208 hours), as outlined in Figure 12.

**Figure 12**

| Individual's Incoming Indirect Cost Costs | Percentage of Time and Effort | Equitable Share of Incoming Indirect Costs Allocated |
|---|-------------------------------|--|
| \$8,000                                   | 10%                           | \$800  |

### Merchant Fees

The City allows applicants to pay for school impact fees with a credit card. When applicants pay with a credit card, the City incurs a merchant fee to process the transaction. KPMG allocated an equitable share of merchant fees to the City's total school impact fees cost. KPMG allocated merchant fees based on the school impact fees revenue as a percentage of the City's total fees revenue.

In FY17, the City collected \$38,509,170 for the following fees:

- School impact fees (\$9,840,711)
- Permitting fees (\$11,447,154)
- Transportation impact fees (\$11,303,199)
- Sewer impact fees (\$5,311,692)
- Parks impact fees (\$606,414)

The City collected \$9,840,711 in school impact fees which accounts for approximately 26% of the City's total collected fees. In FY17, the City incurred \$304,372 in merchant fees to process all impact fees paid for with a credit card. KPMG allocated approximately 26% of the \$304,272 in merchant fees to the City's total school impact fees cost, as outlined in Figure 13.

**Figure 13**

| School Impact Fees Revenue | Total Fees Revenue | Percentage | Total Merchant Fees | Equitable Share of Merchant Fees |
|----------------------------|--------------------|------------|---------------------|----------------------------------|
| \$9,840,711                | \$38,509,170       | 26%        | \$304,372           | \$77,780                         |

## Quality Assurance

KPMG took appropriate measures to confirm that the City's total school impact fees cost was an accurate reflection of the City's time and effort. The following sections outline KPMG's quality assurance measures.

### Distorting Costs

Distorting costs are costs that disproportionally skew the City's total school impact fees cost. Select City personnel, whose time and effort were included in the Cost Report, were coded to cost centers with significant inter-fund transfers. These transfers appear as costs in the general ledger; however, they do not represent time and effort related to the collection and administration of school impact fees. KPMG *did not* include these costs as part of the allocation to the City's total school impact fees cost.

### Duplicative Costs

Duplicative costs are costs that are double counted during a cost allocation exercise. Costs must be consistently charged as either indirect or direct costs in order to avoid inconsistent allocation or double counting of costs. Select City personnel coded to indirect cost centers, such the Office of Management and Budget, dedicated time and effort to the collection and administration of school impact fees; however, these individuals' costs are captured in the City's annual indirect cost allocation plan. As such, KPMG *did not* include these individuals' hours or costs associated thereof.



## School Impact Fees Costs

KPMG documented a total of 2,557 hours of City personnel time related to collection and administration of school impact fees. This resulted in a subtotal cost of \$154,944. In addition to City personnel time and effort, KPMG allocated \$77,780 of City merchant fees related to school impact fees for a total school impact fees cost of \$232,724. The City's cost expressed as a percentage of school impact fees collected is 2.4%.

*Figure 14*

| Time and Effort Cost | Merchant Fees | Total Cost | School Impact Fees Collected | Cost, Expressed as a Percentage |
|----------------------|---------------|------------|------------------------------|---------------------------------|
| \$154,944            | \$77,780      | \$232,724  | \$9,840,711                  | 2.4%                            |

## Assumption

In preparing this deliverable, KPMG has relied upon the information provided by the City personnel to be correct and complete in all material respects. KPMG did not independently verify such information.

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