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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** June 24, 2011

**IBA Report Number:** 11-41

**City Council Docket Date:** June 28, 2011

**Item Number:** Item 335

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# Police Department User Fee Proposal

## OVERVIEW

On June 28, 2011, the City Council will be requested to adopt the resolutions and ordinances to ratify the Police Department's revised Fee Schedule and the associated revisions to the Municipal Code. The requested revisions pertain to Entertainment and Money Exchange House Permit fee increases that are intended to fully recover the cost of the issuance of permits and regulation within the entertainment and money exchange house industries. An increase in the revenue associated with these fees was integrated into the FY 2012 Budget approved on June 6, 2011. Separate action is required by Council to adopt the resolutions and ordinances to formally approve the revised San Diego Police Department's Fee Schedule and the associated changes to the Municipal Code relating to the increases. In total, it is estimated that the fee changes will recover \$323,451 in revenue to offset the costs of administration and regulation associated with the permits.

In April of 2009, a proposed increase to entertainment fees was heard by the Budget & Finance Committee. Concerns raised at that meeting relating to the proposal lead to the postponement of an increase of the Entertainment Permit fee for future Council consideration until the issues could be addressed. At the May 4, 2011 Budget & Finance Committee budget hearing, the Police Department presented Entertainment and Money Exchange House permit fee increases as a part of their department's FY 2012 Proposed Budget. At the meeting, a number of industry stakeholders raised concerns regarding the equity of the costs imposed on entertainment venues within the proposed permit fee structure. Since then, a working group comprised of Police Department representatives, the Mayor's Office, Council offices, the City Attorney's Office, the IBA, and restaurant and entertainment business stakeholders have met to discuss concerns regarding the entertainment fees. Stakeholder feedback has been incorporated into the new fee structure for Entertainment Permit fees as currently being proposed by the Police Department.

The Office of the IBA has reviewed the methodology used by the Police Department to determine the fees necessary to fully recover the costs associated with Entertainment and Money Exchange House Permits. We have determined that as proposed, the fees could fall slightly short of full cost recovery, but recommend their adoption with the expectation that after a full year of implementation, the Police Department will have actual data relating to staff time, costs, and permit demand and will be better able to calculate the true cost associated with the permits. At that time, potential modifications to the fees, particularly relating to the tiered structure for entertainment fees, can be brought before Council for consideration.

## FISCAL/POLICY DISCUSSION

The FY 2012 Budget, as approved by Council on June 6, 2011, included a \$323,451 fee increase related to an increase in the Entertainment Permit and Money Exchange House Permit fees. \$305,560 of this increase is related to an increase in the Entertainment Permit fee and \$17,891 being related to the Money Exchange House Permit Fee. With these increases, the FY 2012 budgets for Entertainment Permits and Money Exchange House Permits, are \$641,605 and \$41,121, respectively.

The proposed entertainment fee structure differs from the current fee structure with the replacement of the “Entertainment Permit with Alcohol with less than 50 people” and “Entertainment Permit with Alcohol and greater than 50 people” categories with four new fee tiers. These changes are summarized in the charts below.

Former Entertainment Permit Tiers Removed	Current Fee	Former Proposed Fee
Entertainment Permit w/ Alcohol and <50 people	\$920	\$938
Entertainment Permit w/ Alcohol and 50+ people	\$1,840	\$3,253



Revised Entertainment Permit Tiers	Revised Proposed Fee
Entertainment Permit w/ Alcohol and <100 people	\$1,500
Entertainment Permit w/ Alcohol and 100-249 people	\$2,382
Entertainment Permit w/ Alcohol and 250-399 people	\$3,176
Entertainment Permit w/ Alcohol and 400+ people	\$3,970

These changes were incorporated in consideration of concerns raised by industry stakeholders regarding the appropriateness of the fee tiers within the previous fee structure.

### *Cost Recovery Calculation*

The cost recovery fees for the Entertainment and Money Exchange House Permits were calculated using department estimates of hours per permit, multiplied by staff loaded

salary, and the estimated numbers of permits to be issued. The loaded salary includes both direct staffing costs, in addition to indirect costs relating to departmental overhead. It is important to note that the Police Department was purposely conservative with the data used for this calculation to ensure that, particularly with Entertainment Permit fees, and the incorporation of the new tiers, they would not over estimate the costs associated with Entertainment Permits. Cost data used in the cost of service calculation has not been updated from that proposed in 2009 when this effort first began. Direct and indirect costs have naturally increased since then, but more recent FY 2011 or FY 2012 budget data is not used. If FY 2011 loaded salary data is used, while keeping the proposed staff hour assumptions constant, the IBA has calculated that the fees could fall slightly short of full cost recovery by approximately 7%. The department has expressed that this conservative approach allows for flexibility in the case that the estimated required hours for the proposed new tiers is higher than the actual hours expended on permit related activities in the coming fiscal year.

In being conservative, it is possible that the current fee schedule will not fully recover the costs for Entertainment and Money Exchange House Permits. After the first year of implementation of the entertainment fees, the department will have better data and will be able to report to Council on the status of full cost recovery during next year's budget process.

#### *Future Entertainment Permit Fee Modifications*

A "Limited Permit" is currently being reviewed by the Police Department and the City Attorney for inclusion in the entertainment fee tiers. Such a permit would apply for entertainment venues that require very little oversight, such as a family oriented venue that closes at 11:00 pm. The "Limited Permit" fee would be less for applicants. This item may be brought before the Council for consideration in the future. The incorporation of this fee would alter the current fee tiers as proposed and overall revenue generated, but it is expected that this impact would be minimal given that few applicants would be expected for the permit given the operational requirements associated with the "Limited Permit".

#### *Other Police Regulated Business Fees*

The Police Department regulates a number of businesses within its Permits & Licensing Unit. Entertainment and Money Exchange House Permits comprise just a portion of the Unit's licensing and permit activity. With operational changes made within the department in recent years including the layoff of civilian employees, the backfill of some of these positions with more costly sworn personnel, and the push for operational efficiencies, the cost assumptions supporting all of the Police Department's licensing and permit fees will have to be reviewed for possible revisions. Per the Department, such a review has not taken place at this time due to limited staff resources and the need to address other priorities.

#### *Council Policy 100-05*

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 Police 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.

## CONCLUSION

The Office of the IBA has reviewed the methodology used by the Police Department to determine the fees necessary to recover the costs associated with Entertainment and Money Exchange House Permits. We have determined that as proposed, the fees may fall slightly short of ensuring full cost recovery, but recommend their adoption with the expectation that after a full year of implementation of the new fees, particularly the Entertainment Permit fees, the Department will be able to calculate the true cost associated with the permits, using actual data regarding staff time, costs, and permit demand.

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