

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

SUBJECT: USER FEE POLICY
POLICY NO.: 100-05
EFFECTIVE DATE: March 10, 2009

BACKGROUND:

The following presents a comprehensive User Fee Policy for the City of San Diego that includes guidelines for establishing and maintaining a comprehensive user fee schedule. The user fee policy establishes the method for setting up fees and the extent to which they cover the cost of the service provided, as recommended by the Government Finance Officers Association (GFOA), National Advisory Council on State and Local Budgeting (NACSLB), and Federal Government Office of Management and Budget (Circular A-87).

The City charges a range of fees for services provided to residents and businesses. These fees are imposed as a result of a public need, such as recreational services, rental uses, and other types of services.

According to the standards established by GFOA and NACSLB and their best practice guidelines, governments should calculate the full cost of the different services they provide. For instance, GFOA recommends a formal fee policy that should identify factors to be considered when pricing services.

Many cities have implemented user fee policies to comply with the regulations set by their jurisdictions. Best practices indicate that several components are essential in developing a User Fee Policy that are described below and included in the User Fee Policy:

1. Provide specific requirements for frequency of fee review.
2. Identify how fees are set and what factors are considered.
3. Develop a cost recovery rationale which will allow revenue enhancement through full cost accounting, thereby improving government efficiency, and which will maintain equity considerations in regard to provision of government services.
4. State the government agency's intent to set fees to recover the full cost of service. Determining cost recovery rates necessitates an accurate calculation of the cost of providing government services, both direct and indirect, regardless of whether all services are deemed to be fully cost recoverable. Direct costs consist of costs that are incurred directly by providing the service, such as staff time spent on service-related activities in addition to salary and benefit expenses. Indirect costs consist of departmental overhead such as operating expenses and internal administrative costs as well as citywide overhead costs. Failure to include indirect costs results in inadvertent subsidization of government services that benefit individuals rather than the overall public.

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5. Provide rationale in cases where a government agency sets a fee lower than the full cost of a service. The concept behind a user fee is that the fee charged for a service should equal the cost of providing that service. Examples of programs and services with low to moderate cost recovery levels include recreational activities for youth and seniors, other community services, and library fees.

6. Set a frequency for undertaking cost of service studies. In-depth user fee studies should be undertaken every two to five years, with annual adjustments based on certain economic inflators or changes in budget allocations. While some cities determine annual fee changes by evaluating the impact of inflation, others also evaluate the impact of changes in budget allocations for each department to determine whether the cost of providing specific services has changed. In addition, while an annual review is necessary to determine whether fees should be updated according to the policy, a comprehensive annual user fee study may not be cost-effective because of its labor and time-intensive nature, particularly due to the large number of fees that must be reviewed. Therefore, a schedule of increases based on Consumer Price Index (CPI) or other annually adjusted inflator should be included in the policy.

7. Allow stakeholder input and make the policy available to the public. GFOA recommends that stakeholders be given an opportunity to provide input during the User Fee Policy formulation process. This User Fee Policy includes: a) provisions for allowing the public to be part of the discussion of the proposed fees; and b) the requirement to make a schedule of all fees available and ensure its easy access for the public.

PURPOSE:

Identify the full cost of services for activities that charge user fees in order to develop target cost recovery rates.

Bring existing fee levels in-line with service costs to ensure that all reasonable costs incurred in providing these services are being recovered.

POLICY:

Definitions:

“User Fee” is a fee charged by a government agency to recipients of its services. User fees generally apply to activities that provide special benefits to members of the public, and the amount of the fee is usually related to the cost of the service provided. Examples of user fees are pool fees, park room rental fees, fire inspection fees, and others.

“Cost Recovery” is recouping a portion of or all costs associated with a particular service provided by the government agency to the public. The user fees determine the percentage of a service that is recovered. Cost recovery has two important rationales: (a) revenue enhancement through full cost accounting, thereby improving government efficiency; and (b) maintaining equity considerations in regard to the provision of public services.

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“Direct Costs” are the costs incurred directly by providing a specified service. These costs are associated with staff time spent performing service related duties and include employee salary and benefits. In general, direct costs are any costs that can be traced directly to the production of a given service or product.

“Indirect Costs” are the costs not directly accountable or associated with the production of a service, such as a fixed cost. Indirect costs include departmental overhead (operating expenses and internal administrative costs), as well as citywide overhead, including all those costs that support City programs and services.

Annual Review Process:

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. All approved changes shall be published in the City’s user fee rate book and on the City’s website, both of which shall be maintained by the Office of the City Clerk.

Changes to user fees in enterprise fund departments (Water, Wastewater, Airports, Golf Course, Recycling, and Refuse Disposal funds) shall be proposed to the City Council as recommended by each responsible enterprise fund department.

Requirements:

A. Levels of Cost Recovery

Category I – Full Recovery (100 Percent)

User fees that are determined to have a 100 percent cost recovery goal shall be updated annually based on the costs incurred for providing services using actual data from the prior fiscal year. All user fees are assumed to be at 100 percent cost recovery unless they meet the criteria for Categories II and III.

Category II – Partial Recovery (Below 100 Percent)

User fees that are below the 100 percent cost recovery goal shall be adjusted annually by a standardized escalator based on the most recent Consumer Price Index. Alternatively, these fees may be changed at any point in time upon recommendation by the responsible department, approval by the Chief Operating Officer and final approval by the City Council.

Fees are generally less than 100 percent cost recovery in cases where: (a) the collection of fees is not cost-effective; (b) the collection of fees would not comply with regulatory requirements; (c) the purpose of the fee is not to generate revenue but rather provide benefits to the recipients (e.g. recreational activities).

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Category III – Fees (Fines and Penalties)

User fees that fall into this category are in most cases penalties, fines or deterrents to the public (library fines, penalties for uncollected money or public safety response for disturbances). User fees in Category III shall be reviewed annually relative to the reasonableness of the fee and the fiscal effect as it relates to deterrence.

In summary, the following economic and policy considerations shall be considered when setting cost recovery levels as follows:

- Public use of government services shall be considered (potential to use fees as a means of encouraging or discouraging activities, for instance, library book fines).
- Constitutional or other types of limitations on charging more or less than the actual cost of providing the service.
- Subsidization (not full cost recovery) of activities for groups who cannot afford access to services if fees are set at full cost recovery (e.g. pool fees). In these cases, the City shall subsidize a portion of the cost of the service.
- The fee amount and its affect on the demand of the service shall be considered. Increasing a fee amount might not always raise revenues, but instead may have the opposite impact. A fee set above what the public is generally willing to pay will lessen the demand for the service, and, as a result, a sensitivity analysis of consumer demand shall be considered when setting fees.
- The nature of the facilities or services shall be considered when setting fees (e.g. fees for facilities may warrant full cost recovery while fees for youth recreation programs may warrant less than full cost recovery).
- The nature and extent of the benefit to the fee-payers. The recipients that benefit from the service provided shall be identified. The fee review shall consider whether the service is beneficial to the public as a whole or the individual fee-payer.
- Fee amounts shall be proportional to the costs associated with providing the service or program. The full cost should consist of both direct and indirect costs and should be included within the fee amount. Indirect costs shall be captured through overhead rates for each department.

B. Cost Recovery Calculation

City departments with user fees shall determine cost recovery rates based on direct and indirect costs for all fees in order to accurately calculate the cost of providing services regardless of whether all services are deemed to be fully cost recoverable. Indirect costs shall include allocated central support services costs (IT, risk management, fleet assignment and usage fees, etc.).

Fees shall be annually adjusted to maintain the cost recovery level. Departments with user fees shall be responsible for developing cost recovery rates for their respective user fees in accordance with the cost

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recovery levels described in this policy. User fees that do not meet the criteria for Categories II and III shall be developed to achieve full cost recovery (Category I). Where appropriate, departments may initiate a multi-phase approach to achieve a targeted cost recovery rate.

Different methods of adjustment are acceptable such as using a Consumer Price Index (CPI), State and Local Implicit Price Deflator, Municipal Cost Index, or other inflators. It is recommended that, if applicable, a CPI inflator be used for setting or revising the City's user fees.

C. Frequency of User Fees Cost Studies

User fees shall be updated annually as a part of the budget process based on CPI inflation estimates or other annually adjusted inflators until the next comprehensive user fee study is undertaken.

A comprehensive user fee study and a review of this proposed User Fee Policy shall be conducted every three years. The user fee study should include the extent and scope of study as well as the level of participation of responsible departments. Any major changes to fees shall be implemented prior to the adoption of the annual budget for the following fiscal year.

The following factors shall be taken into account during a comprehensive user fee study:

- Whether service costs are covered by revenues received.
- Whether fees cover costs and generate excess revenue that supplement other services.
- A comparison of fee levels for similar services provided in other jurisdictions.
- An analysis of all relevant costs involved including direct and indirect costs.

Any proposals for new or revised fees shall be first approved by the Chief Operating Officer. The fee proposals then shall be reviewed by the Budget and Finance Committee with subsequent approval by the City Council. Any such proposals shall include the purpose of the fee (if new); justification for implementation or revision; the fee amount and annual revenue; annual cost; the methodology and level of cost recovery; the nature and extent of the benefit to the fee-payers; and other relevant information.

The City's Administrative Regulations related to user fee charges shall be revised by including all the requirements of this User Fee Policy and shall include procedures for implementing new fees or revising existing fees.

D. Public Input and Availability of Fee Information

When fees are revised, data indicating the proposed fee, the estimated cost required for providing the service, and the estimated amount of revenue shall be available to the public prior to the City Council meetings through the docketing of the report for the Council agenda. The City Clerk shall post an updated schedule of all fees on the City's internet site on July 1st of each year. The City Clerk shall also make available to the public a fee rate book that shall be located in the Office of the City Clerk.

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This policy shall replace Council Policy 100-05 (“Fees - Public Notification”) adopted by the City Council in April 1979.

CONCLUSION:

The purpose of this policy is to provide general guidelines and to incorporate best practices in establishing user fees to ensure that the City adequately recovers costs for services it provides to the public. The User Fee Policy identifies factors that need to be considered in setting fees, the level of cost recovery, and the frequency of comprehensive user fee studies. The key factor of the User Fee Policy is to review and update fees on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

HISTORY:

Fees – Public Notification”
Adopted by Resolution R-223244 04/09/1979
Retitled to “User Fee Policy”
Amended by Resolution R-304723 03/20/2009