

Performance Audit of the City’s General Fund User Fees

Why OCA did this study

Like other local agencies, the City of San Diego charges fees for a variety of services it provides. The City collects approximately \$22 million per year in user fees for over 500 General Fund programs and activities, ranging from permit fees for police-regulated businesses to fees for recreational activities. The objectives of this audit were to determine whether the City’s General Fund user fees have been regularly and appropriately adjusted as required by Council Policy 100-05, as well as to determine whether the City consistently and accurately identifies City services that require establishment of a user fee.

What OCA found

Finding 1: The City’s current user fee reports provide some helpful information but leave out key data on program usage and subsidization costs that are necessary for more effective oversight and policymaking.

Council Policy 100-05 and Government Finance Officers Association (GFOA) best practices emphasize the importance of providing detailed information on charges and fees to the public to promote transparency and oversight.

As part of the City’s user fee review process, the Department of Finance (DoF) consolidates reports and materials from multiple departments for City leadership and the public in the City’s review of its General Fund user fees. Additionally, the Parks and Recreation Department (Parks & Rec) issues a separate consultant-driven user fee study that includes several additional useful details. However, the City’s user fee study reports should be presented together and include additional information to enhance the efficiency of oversight and increase public transparency.

Exhibit 5:

While Both the Citywide and Parks & Rec User Fee Reports Provide Important User Fee Information, They Do Not Provide Some Additional Elements that Should Be Included

	Included in Comprehensive User Fee Study	Included in Parks & Rec User Fee Study
Fee Title	✓	✓
Department	✓	✓
Current Fee Amount	✓	✓
Proposed Fee	✓	✓
Proposed Cost Recovery %	✓	✓
User Fee Volume	✗	✓
User Fee Revenue	✗	✓
Total Annual Cost of Service	✗	✗
Total General Fund Subsidy	✗	✗

Source: OCA generated using DoF’s FY2019 User Fee Database and Parks & Rec’s FY2020 User Fee Study.

For example, at the individual fee level, DoF’s user fee reports leave out the total number of users as well as annual service costs, revenues, and subsidies.

Additionally, while DoF had included total user fee revenues in previous Comprehensive User Fee Study reports, the reports did not include total user fee costs. We found that total service provision costs totaled approximately \$49 million in FY2019. Since total user fee revenues for those services recovered approximately \$22 million, the overall cost recovery level was 45 percent for user fees across the City, for a total annual subsidy from the General Fund of approximately \$27 million.

Exhibit 3:

Current User Fee Reports Do Not Include Some Elements that Would Assist City Leadership in their Oversight and Policymaking

Questions that Currently Cannot Be Answered Using the Comprehensive User Fee Study



Finding 1 (continued)

Because these figures vary widely between user fee-supported programs, it is essential to provide City leadership and stakeholders with more comprehensive user fee information, both at a high-level and a granular level, to determine what impacts rate changes will have on service provision levels, the number of users affected, and the City's General Fund finances.

Even though DoF does not currently include additional fee details discussed above in its Comprehensive User Fee Study reports and materials, the department does maintain a User Fee Database that could produce such fee details.

Finding 2: Most of the City's user fees other than Parks and Recreation's have been updated and adjusted in accordance with best practices; however, the process should be strengthened and formalized to ensure its continuation.

GFOA best practices emphasize updating fees periodically to help smooth charges and fee increases over several years rather than implementing abrupt increases. Council Policy 100-05 also provides guidance to periodically revise fees based on updated costs.

Parks & Rec's user fees have not been adjusted since FY2016 and are due for updating. Although the department did participate in the FY2016 Comprehensive User Fee Study, it did not participate in the City's FY2019 study. We estimate that missing the FY2019 user fee adjustments may have led to approximately \$1 million in foregone fee revenue for the City over the FY2020 to FY2022 period. Likewise, the City may have missed opportunities to reduce fee rates to increase access, consolidate similar user fees into a single fee, or eliminate some fees all together.

Our analysis of the City's user fees throughout other General Fund user fee departments found that most fee rates (72 percent) have been updated from FY2016 to FY2021. We also found that DoF efficiently targeted its review of those fees that had remained unadjusted to ensure the departments had justifiable reasons to leave such fee rates unchanged.

However, the user fee review process is not formally documented and relies on individual efforts of several critical personnel within DoF, as well as analysts within each of the General Fund user fee departments. As such, DoF's review process should be strengthened and formalized to ensure the City continues adjusting its user fees as necessary.

Finding 3: More consistent benchmarking of user fees could lead to increased operational efficiencies and more equitable and effective service provision.

We found that most of the City's General Fund user fee departments do not consistently benchmark user fee rates with comparable or neighboring jurisdictions as required by Council Policy 100-05 and recommended by the GFOA.

Though benchmarking difficulties raised by departmental analysts should be acknowledged, the practice is required by Council Policy 100-05 and is considered a user fee best practice by the GFOA.

Benchmarking is an important exercise for General Fund user fee departments to utilize during the Comprehensive User Fee Study as it helps ensure the City is identifying and charging comparable fees to other municipalities, is charging fees for comparable operational services, and is made aware of potential efficiency gains and opportunities to improve equity identified by other cities. In addition to these benefits, benchmarking services provided by General Fund user fee departments may lead to the identification and establishment of additional user fees for services and alignment with other municipalities' fees and practices.

For example, the Library Department eliminated most of its late fines during the City's FY2019 Comprehensive User Fee Study due to benchmarking efforts performed by the department's user fee analysts.

What OCA recommends

We make 3 recommendations to ensure City leadership and the public are provided more comprehensive user fee information to allow for more effective oversight and policymaking, to improve compliance with Council Policy 100-05 benchmarking requirements, and formalize DoF's user fee review process.

Key recommendation elements include:

- Updating and complying with Council Policy 100-05 requiring DoF to consolidate all General Fund user fee reports and materials into a single report/presentation for City leadership, and providing specific user fee details in its user fee reports/presentations;
- Updating and complying with Administrative Regulation 95.25 to include a requirement for DoF to ensure monitoring and identification of all user fees that have not been revised/updated in the last 5 years or longer; and
- Updating and complying with Administrative Regulation 95.25 to require General Fund user fee departments to provide written confirmation to DoF that user fee benchmarking was performed as part of the City's Comprehensive User Fee Study.

City Management agreed to all 3 recommendations.

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