**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

# REVIEW OF MAYOR'S FIVE-YEAR FINANCIAL OUTLOOK FISCAL YEARS 2008 – 2012

## *Part IV. Potential New or Increased Fees*

**Date Issued: March 22, 2007** **IBA Report Number: 07-36**

# Report Overview

The Mayor's Five-Year Financial Outlook for Fiscal Years 2008-2012 was presented at the November 29, 2006 Budget and Finance Committee meeting. This Financial Outlook represents a view of the City's long range fiscal condition and fiscal challenges for the next five years. The Financial Outlook is not balanced. Shortfalls exist in every year of the Financial Outlook. The Mayor has proposed corrective actions to partially address and mitigate the City's significant financial shortfall.

This IBA report examines possible new and increased fees, which are not contemplated in the Financial Outlook. This is part IV of a series of IBA reports issued on the Mayor's Financial Outlook. IBA Report 07-6 (part I) examined the General Fund revenues and expenditures, and IBA Report 07-12 (part II) examined the Mayor's eight significant areas. The IBA presented parts I and II to the Budget and Finance Committee on January 31, 2007. IBA report 07-21 (part III) provided a review of the Mayor's corrective actions to address the projected shortfalls over the next five years, and was presented to the Budget and Finance Committee on February 21, 2007.

# Background

On April 15, 2002, the City Council adopted the Blue Ribbon Committee Report, which evaluated the City's current fiscal health and made several recommendations. The seventh recommendation of the Committee was "Expand the current revenue sources and seek additional sources of revenue."

In response to the Blue Ribbon Committee Report, the City Manager issued a report to the Committee on Rules, Finance and Intergovernmental Relations regarding the expansion of current revenue sources and identification of additional revenue sources on March 28, 2003. This report described San Diego's comparatively low tax-related revenue base relative to peer cities, and identified typical revenue sources not in place for the City, such as refuse collection fees and utility user taxes, and suggested consideration of such revenue options. The report also described legislative constraints to the implementation of new taxes, including Proposition 218, which, among other things, requires majority voter approval for all local general taxes and two-thirds voter approval for all local special taxes.

As part of the Fiscal Year 2004 budget process, the City Manager's Office appointed an internal Task Force made up of representatives from all City departments to review a broad range of activities that receive operational support or involve the use of public-owned property and/or City facilities. This effort resulted in the identification of a number of services provided by the City of San Diego that currently have no fees associated with them and for which the primary recipients of the service do not provide any direct level of reimbursement to the City through permit fees or other cost-recovery mechanisms. Additionally, the Task Force identified a number of services provided by the City for which permit fees, hourly rates and other cost-recovery methods have not been reviewed or changed in a number of years. Finally, a comprehensive review of all departmental rates and fees that have previously received City Council approval was conducted and, in cases, where the City Manager has been granted authority by the City Council to adjust rates and fees, the City Manager approved departmental recommended rate and fee adjustments. Twenty fees and/or fee revisions were brought forward to the City Council for review and approval, with estimated revenue of approximately $2.5 million to be generated for Fiscal Year 2004.

As part of the Fiscal Year 2005 budget process and consistent with the City's policy on budgetary cost-recovery principles, the City Manager directed staff to conduct a full evaluation of the costs and revenues associated with providing City services. As a result, recommendations regarding the establishment of new rates and fees and adjustments to existing rates and fees were made for the Fire-Rescue, Police, Park and Recreation, Engineering and Capital Projects and General Services Departments. At that time, it was reported that recommended changes would generate $11.3 million in net new cost-recoverable revenue to the General Fund for Fiscal Year 2005.

On May 25 and June 14, 2004, public hearings were held by the City Council to consider the establishment of twenty-two new rates and fees, and adjustments to existing rates and fees. On June 28, 2004, the City Council approved new rates and fees for eight of the twenty-two fees, including Fire Company Inspection Program Fees, Police/Traffic Control Rates for Commercial Events and Other Activities, Ground Use Fees, Instructional Camp Fees, Disabled Parking

Violation Fine, Disabled Parking Violation Processing Fee, Sidewalk Disabled Access Ramp Parking Violation Fine, and Trailer Parking Violation Fine. In addition, rate adjustments were made for Special Survey Fees, Curb Installation, Non Sufficient Fund Check Processing Fee, and Business Tax Processing Fee.

More recently, Kroll Report's Remediation Recommendation # 43 stated that "In order to maintain current service levels and address issues such as deferred maintenance, the City must reduce expenditures by improving efficiency, increasing the current revenue base, and seeking alternative revenue sources."

Results of the City Council Strategic Visioning Process which took place in January 2007 reflected preferences on the part of the Councilmembers to pursue alternative revenue enhancement strategies, like "new or renegotiated leases" and "program cost-recovery" while indicating "across-the-board percentage reductions, "new or increased taxes" and "land sales" were least preferred options.

Because of limited resources in the short-term, as shown in the Mayor's Five Year Financial Outlook, and recommendations over the past several years that the City must consider enhancing its revenues, the IBA stresses the importance of the City reviewing its fees and cost-recovery policies on a regular basis. An ongoing dialogue is required to continually monitor and assess possible areas that may be appropriate candidates for new and/or increased revenue opportunities, now and in the future, and to evaluate the current environment for exploring these and other options further.

# Discussion of Potential Fees

In the Fall of 2006, the Mayor's office assembled a team throughout various City departments to evaluate proposed revenue enhancements. The Mayor's Five Year Financial Outlook, however, did not include any proposed new fees or fee increases. Based on recent information from the Mayor's office, some revenue enhancement options are now being explored, and are expected to come forward to the City Council for review and approval. Information prepared by this team has been shared with the IBA, and twelve revenue enhancement items have been reviewed and compiled in this report, as follows:

1. 9-1-1 Call Surcharge
2. Business Improvement District (BID) Administration Fee
3. Car Rental Surcharge
4. Non-Resident Boat Launch Fee
5. Paramedic First Responder Service Fee
6. Pre-paid Parking Meter Card Surcharge
7. Facility Use Fee
8. Automated Refuse Container Replacement Fee
9. Valet Parking Permit Fee
10. Franchise Tax Board (FTB) Business Tax Compliance Program
11. Storm Drain Fee
12. Cost-Recovery of Existing Fees and Charges

## 1. 9-1-1 Call Surcharge

9-1-1 Fees provide funding for public safety expenditures, primarily the operation, maintenance, and enhancement of an emergency communications system. Currently a statewide surcharge is imposed on telephone services which provide funding for the California Highway Patrol and funding for local jurisdictions. The local funding is primarily given to the telephone company who then provides cities with equipment upgrades. San Francisco was the first city/county in California to institute an emergency response fee to provide an adequate funding mechanism for its emergency call taking and dispatch functions. Their current fee is $2.75 per access line and $20.62 per trunk line and is collected through the monthly telephone bill by the service provider.

There are several outstanding issues that will have to be reviewed and resolved before proceeding with this fee:

1. Cost Recovery. Before any fee is implemented, the IBA would like to review the cost analysis that was performed to identify a proposed fee. Also, consideration of exemptions and fee caps will need to occur as they relate to the most appropriate policy for our jurisdiction. It should be noted that if an exemption occurs, the City must absorb this expense, as it would not be appropriate to recover this expense from other fee payers. Such exemptions could occur for lifeline customers, educational and governmental entities, and pay phones. Pay phones are currently exempt from the State 9-1-1 surcharge.
2. Cell Phones. To avoid the appearance of unfairness, both land lines and cellular telephones should be included. This is especially important, given that the State has recently decided to transfer the responsibility for handling cell phone calls from the California Highway Patrol to local call taking centers. This additional volume will impact systems' capabilities.
3. Legal aspects. Municipalities interested in implementing a 9-1-1 fee are awaiting the outcome of key legal cases related to Union City (Alameda County) and Santa Cruz County 9-1-1 fees. The main issues are that opponents of the fee believe it is a special tax and/or a property related fee and, thus, subject to the requirements of Proposition 218.

Upon resolution of the above items, the IBA believes that it would be appropriate for Council to consider implementation of a 9-1-1 fee to ensure operability of the City's emergency response and dispatch system. Annual revenue estimates of $16 million have been prepared, assuming a $3 fee added to monthly land line bills.

## 2. Business Improvement District (BID) Administration Fee

Business Improvement Districts (BIDs) are a type of assessment district in which business owners choose to be assessed a fee, which is collected on their behalf by the City, for use in promoting and improving the business area. The formula for determining the assessment amount is determined by the business organization that initiates the BID process, not the City. The respective business group takes into account the type, size, and location of the businesses. Assessments are levied on businesses on the basis of relative benefit from the improvements and activities to be funded. In San Diego, the fees generally range from $40 to $500 per business each year. A few of the newer BIDs have higher fees, ranging from $90 to $1,200 per year, with some anchor businesses paying up to $5,000 to support BID-related projects.

The fees help to fund BID board-approved business-related activities and improvements which will benefit the businesses. Activities, programs and improvements range from farmers' markets to business promotions to installing street lighting and removing graffiti. By pooling private resources, business owners in BIDs collectively pay for activities which they could not afford on an individual basis.

The City collects the fee on an annual basis. The BID assessment is included as a separate charge on the business tax certificate bill that every business receives. Currently all assessment funds are returned to the BIDs through annual contract agreements.

The City incurs staff costs to annually administer the City's 18 BID contracts and process their monthly reimbursement requests. Unlike other special assessment districts in the City (such as maintenance assessment districts), annual BID contract administration costs of approximately $190,000 are currently funded by the City's General Fund. It has been proposed that each BID be assessed an annual administrative fee to allow the City to recover the cost of related and necessary administrative services. Assuming total annual costs of $190,000 were distributed among each of the 18 BIDs, an annual fee of $11,000 per district could be instituted to fully recover the General Fund's costs. Administrative fees could be charged directly to each of the BIDs, in effect reducing assessment revenues available for each BID's programs and activities. Other allocation methodologies could be explored, based on number of businesses or other factors.

As with many of the City's cost-recovery fee possibilities, the IBA believes that it makes sense to weigh the amount of General Fund subsidy against any public benefits that may be associated with the subsidy. With respect to the longstanding BID administrative subsidy, it should be noted that BIDs typically represent groups of small business owners in the older urbanized areas of the City who agree to annually assess themselves in an effort to revitalize their commercial districts. These efforts embrace the City's smart growth objectives by supporting neighborhood serving retail and staving off commercial blight. The IBA suggests that these public benefits be considered in contemplating this fee.

### 3. Car Rental Surcharge

The car rental surcharge would be a charge levied on vehicles rented within the City of San Diego in order to partially offset the cost of maintaining and improving city streets. In 1990 the City of San Diego implemented a Transient Transportation Tax (TTT), a form of the car rental surcharge whereby persons renting vehicles were to be charged three percent of the full rental value. Immediately after enactment of the TTT, the State Board of Equalization concluded that the tax was more in the nature of a sales tax and may be in conflict with the State's Bradley-Burns Act, which already provided for a one percent local sales and use tax. The Attorney General affirmed this conclusion, and the TTT has since been held in abeyance and never collected.

A similar situation occurred nearly five years later in the City of Ontario, which had imposed a flat fee of $0.60 per day, up to a maximum of $2.40, on each customer who rented a vehicle. Again, the Attorney General found this to be an impermissible tax. In light of these two Attorney General opinions, it is unlikely that a car rental surcharge imposed as either a flat fee or as a percentage of the rental price would be permissible under State law. However, an October 16, 2003 City Attorney report to the Rules Committee states that the Municipal Code may be amended to create an additional business tax that would be imposed on Rental Car Agencies, provided that the businesses falling within the category to be taxed can be accurately defined and categorized. Nonetheless, imposition of such a business tax would require an updated legal opinion, as well as voter approval.

## 4. <u>Non-Resident Boat Launch Fee</u>

As described in previous reports, the Park and Recreation Department operates and maintains five public boat launching facilities: De Anza Cove, South Shores, Ski Beach, Dana Landing, Santa Clara Cove and a beach launch facility at La Jolla Shores. Currently, there is no fee associated with the use of City boat launching facilities. The construction and ongoing repair of these facilities has been funded largely by grant money from the California Department of Boating and Waterways. While the agency allows local jurisdictions to charge fees, it has established a $13 maximum for all fees related to boat launching. Approximately two-thirds of California's launch -ramp facilities use this option and charge a launch-ramp fee. Of those facilities, the average launch fee is just under $8. When other fees such as parking and day-use are included, the average fees associated with boat launching is almost $10 per launch.

City staff has previously recommended the establishment of a $10 Daily Boat Launching Fee and a $100 Annual Fee for unlimited use. In order to implement the proposed fees, there would be a one time expense to install pay and display machines that are required at each launch site to accommodate 24-hour launches where allowed. Additionally, a minimum of one Park Ranger and one Permit Clerk would be needed for enforcement, collection, monitoring, annual permit processing, customer service and public information. A part-time Recreation Leader would be necessary for peak seasons to assist with the machines and collection. City residents would have the option to obtain a sticker or permit for identification purposes, eliminating the need for a fee to be paid. City visitors would utilize the pay and display machine to purchase a single- or multi-use permit, and would be required to provide proof of purchase as requested. Net new revenue has been estimated at approximately $300,000, after allowing for expenses needed to implement.

The Mayor's office has indicated that the boat launch fee concept may conflict with an upcoming integrated parking management plan, which is expected to be brought forward to the City Council in the months ahead.

## 5. <u>Paramedic First Responder Service Fee</u>

A Paramedic First Responder Fee would be a charge for services provided by a Fire-Rescue Department paramedic who is the first responder to an emergency situation. Currently, emergency medical services are provided via two methods: the San Diego Medical Services Enterprise (SDMSE) and the first responder component of the Fire-Rescue Department. Approximately 60% of the time, a Fire-Rescue paramedic will be the first responder on the scene and a SDMSE ambulance will arrive and transport the patient. SDMSE will then be reimbursed for transporting the patient (currently the average patient charge is $892). A Paramedic First Responder Fee would not eliminate the charge for ambulance transportation.

In order to offset the rising costs of medical care, other municipalities have initiated charges/fees for emergency paramedic services. Anaheim currently has a paramedic membership program in which each person is charged $300 for each medical aide response. Residents and business owners have the alternative to pay $3 a month (or $36 annually) versus $300 per response. This fee covers residents and business owner/employees (working in Anaheim), but does not cover non-residential individuals who may receive assistance while in Anaheim. This fee is separate from the costs associated with ambulance transportation. Arcadia has a similar program in which residents pay $40 per year and businesses pay $42 per year. The key benefit of these programs is to help offset the cost of providing emergency medical services and ensure service quality.

Relatively smaller communities have been successful in implementing this fee, but there are challenges. Fire departments generally are more successful in imposing fees on those services when citizens have not already become accustomed to expecting it as part of basic tax-supported services. Where charging for the transport of a patient from the scene of an emergency to the hospital has become common and acceptable, the same may not be said for responding to an emergency. The imposition of a charge for the service of responding may be a difficult policy to implement. Prior to implementing, the IBA suggests exploring whether the institution of this fee may discourage those in an emergency to call for help; and reviewing the experience of other jurisdictions regarding the collection rate for such a charge.

## 6. Pre-paid Parking Meter Card Surcharge

In 1998, the City replaced 5,262 parking meters throughout the City with electronic parking meters, which accept coins and pre-paid parking meter cards. Cards are available in two increments: $10 and $45. Reloading terminals allow cards to be replenished in an amount up to $49. Unused time at a meter can be credited back to the card. The reloading of cards allows individuals to recycle and reduce City costs. The amount currently charged for each new card is equal to the dollar value available on the card. Pre-paid parking meter cards cannot be replaced and no refunds are given if cards are lost or stolen.

The City has considered the addition of a small surcharge to be added to the face value of the pre-paid parking meter card. Proposals have included an amount of $2-$3 per card to recover the cost of the card and create an incentive for customers to reload their cards with additional amounts in lieu of purchasing a new card. Under the proposal, customers reloading their existing cards would not be charged the surcharge. It is estimated that the surcharge could generate $60,000 to $90,000 in new General Fund revenue annually.

Like other fees associated with pre-paid gift cards or debit cards, a surcharge may be viewed as a deterrent to its purchase and use. A review of other cities around the country using pre-paid parking meter cards included New York City, which does not impose any surcharge, and permits customers to purchase cards on-line with a credit card. One related fee found in Florida was for drivers to buy parking meter time, using cell phones with a credit card dialing a 1-888 number, and the fee was 25 cents for each use, or $7 a month for unlimited use. Any proposal related to a surcharge should be presented to the Parking Advisory Board and the Community Parking District representatives to secure input and advice on its implementation.

## 7. Facility Use Fee

A facility use fee, or admissions tax, could be levied on events for which admission is charged, such as sporting events or concerts. Revenue from this fee would be used to partially offset the cost of parking, traffic and law enforcement, as well as facility maintenance. This type of fee is typically levied either as a flat fee or as a percentage of the cost of admission. Preliminary communications from the City Attorney's Office indicate that a surcharge to defray the maintenance costs may not be subject to Proposition 218 voter requirements; however, full legal analysis will be necessary prior to implementing any type of a facility use fee or admissions tax.

A facility use fee or admissions tax may be applied narrowly or broadly. For example, the City and County of San Francisco levies a tiered stadium admission tax for the right or privilege to enter and occupy a seat or space for an event in any stadium within the city and county. This tax is somewhat narrow in scope since it applies only to events that are held in stadiums. In contrast, the City of Santa Cruz levies a five percent admission tax on many different events and venues, including races, dances, concerts, picnics, entertainment events, sports, lectures, films, etc.

The City of San Diego, however, may wish to be cautious in pursuing such a broad application of an admission tax. A September 21, 1992 Memorandum of Law from the City Attorney cautioned that an admission tax may violate the First Amendment if it falls disproportionately on businesses engaged in free or protected speech, such as movie theatres. An updated legal opinion would need to be requested from the City Attorney. A more narrow application would be to levy a facility use fee on admission to events in Qualcomm Stadium, PETCO Park and the ipayOne Center, formerly the Sports Arena. A 2003 City Manager's Report estimated that a 5% facility use fee would generate approximately $4.9 million.

## 8. Automated Refuse Container Replacement Fee

The People's Ordinance (SDMC 66.0127), approved by San Diego voters in 1919 last amended in 1986, requires the City to collect, transport and dispose of residential refuse at least once per week at no charge. Certain small businesses also receive free refuse collection by the City pursuant to the People's Ordinance. In order to receive City refuse collection services, residents and small businesses must place their refuse at the curb line of a public street in approved containers.

In 1994 the City began to permanently convert to automated refuse collection, and provided one refuse container to each customer in order to ensure that all containers would be fully compatible with the new automated and semi-automated collection systems. For this and other reasons, the automated container provided by the City is the only City-approved container. The cost of the containers was initially funded by the Environmental Services Department from General Fund cost-savings that were achieved through conversion to automated collection.

After the initial refuse container was provided by the City, residents could obtain an additional container for a one-time fee of $50. The revenue generated from these fees is used specifically for container replacement. However, refuse containers have a normal life expectancy of 10-12 years, and a significant portion of the containers initially provided are nearing the end of their useful life cycle. In the past, funds for container replacement were included in the General Fund budget, although additional, over-budget containers were usually purchased due to new customers or containers that were damaged or stolen. In FY06, funding for container replacement was eliminated. While $500,000 was restored in the FY07 budget, this level of funding will be insufficient in coming years as containers reach the end of their useful life and the replacement schedule is accelerated.

There are approximately 317,000 refuse containers currently in use. The Environmental Services Department has estimated that it will cost $14.3 million to replace these containers, at a replacement cost of $45 a piece. Preliminary calculations indicate that an annual fee of $12-$13 per automated container would generate sufficient revenue to replace outdated refuse containers on an ongoing basis and recover costs for associated administration and support. The City Attorney has opined that the People's Ordinance does not need to be rescinded in order to implement a refuse container replacement fee, but that such a fee must adhere to the Proposition 218 notification requirements.

## 9. Valet Parking Permit Fee

Some businesses in the City of San Diego have enhanced their parking supply by providing a valet parking service for their patrons. Some of these locations may offer complimentary service while others charge a nominal fee. The City currently charges $700 for an initial application fee and $300 for an annual inspection fee. The City received $18,700 in fiscal year 2005, $22,700 in fiscal year 2006, and is projecting to receive approximately $24,000 in fiscal year 2007.
Private valet parking companies who conduct business on public property currently do not pay a fee to the City for private use of rights-of-way owned by the public. In addition, this reduces space available to the general public.

Several U.S. cities currently charge a yearly fee anywhere from $800 in Boston to over $2,500 per year in Denver. If the City of San Diego charged $2,200 per year on 100 valet spaces, the estimated revenue generated to the City would be $220,000. The Community Parking District Special Fund would receive 45% of the revenue generated per Council Policy 100-18.

The Mayor's office has indicated that the valet parking permit fee concept may conflict with an upcoming integrated parking management plan, which is expected to be brought forward to the City Council in the months ahead.

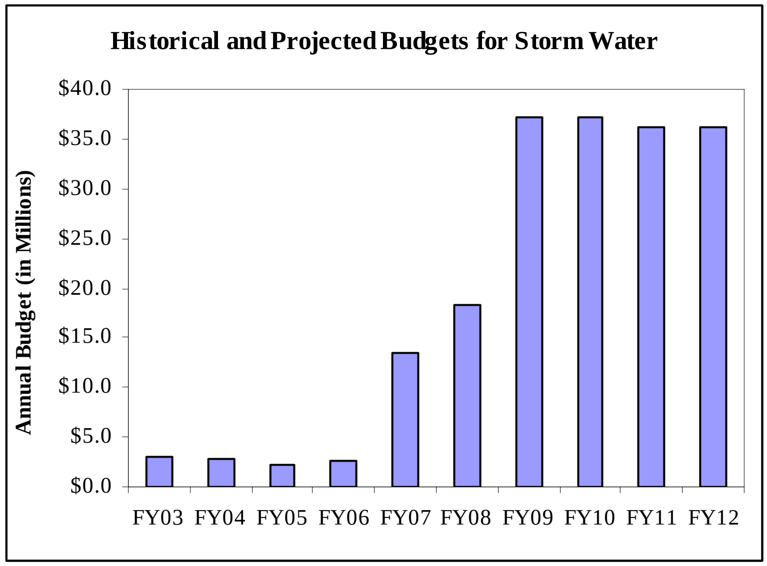
## 10. Franchise Tax Board (FTB) Business Tax Compliance Program

The City has the ability to trade taxpayer data with the FTB. Under this program, the City would provide the FTB with data from the City Treasurer's Tax Collection System (TTCS) database and receive taxpayer data from the FTB. Utilizing FTB data, the City is able to identify businesses operating without a valid Business Tax Certificate. Those businesses would then be assessed for current year business taxes and for up to three years of delinquent business taxes, with associated penalties, in accordance with the City's Municipal Code.

In order to implement this proposal, the City Treasurer would need approximately five additional staff. A specific estimate of additional and necessary costs to implement this program has yet to be developed; however, it is likely that this program, net of additional costs, has the potential to garner several million dollars of otherwise unpaid business tax revenue for the City. The IBA understands that the Mayor's office is currently working to implement this program and recommends that additional information be provided to the City Council.

## 11. Storm Drain Fee

The City's current Storm Drain Fee provides approximately $6 million in funding for the operation and maintenance of the City's storm drain infrastructure, including compliance with the Municipal Storm Water Permit. The Mayor's Five-Year Financial Outlook identified $18.2 million for Storm Water Runoff Compliance in Fiscal Year 2008. The IBA previously noted in Report 07-12 that "it is unclear whether additional cost estimates have been included in the Financial Outlook" for other departments throughout the City which also may be impacted by increased regulations. The table to the right depicts the historical budget of the Storm Water Division and the projected need for additional funding due to increased regulations and enforcement of the Municipal Permit (this does not depict all needs citywide).




Of the $6 million available in Storm Drain Funding, less than 10% ($471,984) is allocated for compliance with the Municipal Permit. The largest percentage of funding is allocated for cleaning and maintaining the infrastructure (approximately 85%). The Storm Water Division receives the majority of their revenue from the General Fund. Identifying and implementing a dedicated funding source to address the City's requirements would assure sufficient funding to comply with this important mandate. Without this dedicated funding source, competing priorities in the general fund (i.e. public safety) may impact the allocation of funding.

Discussions to increase the existing fee have been ongoing, but previous court decisions have recognized that any increase would be subject to the requirements of Proposition 218. In *Howard Jarvis Taxpayers Association v. City of Salinas* (2002) it was ruled the City's storm water drainage fee was property-related and thus applicable to the requirements identified in Proposition 218 (public hearing notice and a vote on the proposed fee). Salinas tried to argue that the fee was related to sewer and water and thus exempt from the voting requirements. The courts ruled that only those fees specifically identified in the proposition language were exempt (water, sewer and trash). To provide local governments more flexibility in achieving reductions in storm water/urban runoff pollution, Assemblymember Tom Harman introduced legislation (ACA10) to include storm water/urban runoff as an additional exemption of Proposition 218. The State legislature has not acted on this critical issue and the bill is currently inactive.

Without the change in legislation, the City would likely have to comply with Proposition 218, including developing a cost of services study, public noticing, and obtaining voter approval. It may benefit the City, if the Governmental Relations Department determine if this bill could be reactivated and explore the option of changing legislation.

## 12. Cost-Recovery of Existing Fees and Charges

The City's Administrative Regulation 95.25 outlines the City's procedures to establish fees to recover the cost of providing City services. Once established by the City Council, the Mayor is authorized to conduct annual reviews of the fees and charges to ensure that all reasonable costs incurred in providing these services are being recouped.

While efforts have been made in the past to identify cost-recovery levels, based on estimated costs and projected revenues, the City does not currently have an updated or accurate analysis of the full cost of many fee-supported services, nor is there a comprehensive list of all cost- recovery fees. In a comprehensive survey on this matter sent out to departments this past fall, managers were readily able to identify the annual revenue collected, but frequently could not denote the specific cost to provide the service and the current level of cost recovery. This information is critical in order to determine whether current cost recovery policies are being met, and in developing recommendations for rate increases, if appropriate. Without this information, any fee increase would simply be tied to known inflation costs rather than the actual costs of providing the service.

Departments currently utilize various mechanisms to develop and determine cost recovery rates. Such analyses should be done uniformly across the City organization, utilizing a full costing accounting model to ensure accuracy and consistency. The development and implementation of the integrated Enterprise Resource Planning (ERP) system (which is currently underway) should consider these needs and additional functionalities to facilitate departments effectively performing these types of analyses on a regular basis, using personnel, accounting, and revenue and expenditure data. An annual systematic analysis of fees and rates is an appropriate part of an Annual Work Plan of an Internal Audit function.

An Annual Fee Cost-Recovery Analysis should be done each year and the results reported as part of the annual budget process. This will facilitate decision-making and incorporate it into the context of annual budget decisions. Once such a program is put into place, costs can be easily updated each year. Once fees have reached appropriate cost-recovery levels, the City should consider implementing systematic increases in order to keep up with inflation in future years.

| SUMMARY OF POTENTIAL FEE OPTIONS | | | |
|---|---|---|---|
| # | TITLE OF NEW OR INCREASED FEE | FY2008 ANNUAL ESTIMATE | AUTHORITY NEEDED TO IMPLEMENT |
| 1 | 9-1-1- Call Surcharge | $16,000,000 | Legal analysis necessary |
| 2 | BID Administration Fee | $190,000 | Annual contract approved administratively |
| 3 | Car Rental Surcharge | $3,000,000 | Legal analysis necessary. Likely to require a vote. |
| 4 | Non-Resident Boat Launch Fee | $300,000 | City Council |
| 5 | Paramedic First Responder Service Fee | $2,130,000 | City Council |
| 6 | Pre-paid Parking Meter Card Surcharge | $80,000 | City Council |
| 7 | Facility Use Fee | $4,900,000 | Legal analysis necessary |
| 8 | Refuse Container Surcharge | $4,000,000 | City Council, though Prop 218 notification required |
| 9 | Valet Parking Permit Fee | $220,000 | City Council |
| 10 | Franchise Tax Board (FTB) Business Tax Compliance Program | Uncertain | City Council |
| 11 | Storm Drain Fee | Uncertain | Citizen Vote |
| 12 | Cost-Recovery of Existing Fees | Uncertain | Comprehensive cost analysis needed |

# Conclusion

An ongoing dialogue is required to continually monitor and assess possible areas that may be appropriate candidates for new and/or increased revenue opportunities, now and in the future. Because of limited resources in the short-term, as shown in the Mayor's Five Year Financial Outlook, and recommendations over the past several years that the City must consider enhancing its revenues, the IBA stresses the importance of regularly reviewing its fees and cost-recovery policies and to assess the current environment for exploring these options further.

The IBA looks forward to the Mayor's office bringing these or other revenue options to the City Council for consideration, and expects to participate fully by reviewing all items and providing recommendations to aid in the decision-making process.

**[SIGNED]**

Tom Haynes
Fiscal & Policy Analyst

**[SIGNED]**

Angela Means
Fiscal & Policy Analyst

**[SIGNED]**

Elaine DuVal
Fiscal & Policy Analyst

**[SIGNED]**

Jeff Kawar
Fiscal & Policy Analyst

**[SIGNED]**

Lisa Celaya
Fiscal & Policy Analyst

**[SIGNED]**

Penni Takade
Deputy Director

**[SIGNED]**

APPROVED: Andrea Tevlin
Independent Budget Analyst

**[SIGNED]**

Lauren Beresford
Research Analyst