
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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General Fund User Fee Policy

OVERVIEW

On February 12, 2009 the Chief Financial Officer released a proposed General Fund User Fee Policy for consideration at the February 25, 2009 meeting of the Budget and Finance Committee. The proposed policy is the outcome of a long-term effort to formalize a comprehensive user fee policy, which is needed to assist with determining the appropriate levels of user fees for services and related cost-recovery revenues.

The need for a comprehensive user fee policy has been raised by the IBA in numerous reports over the past few years. In particular, the IBA has stressed the importance of timely implementation, and more importantly, has recommended that a fee review and adjustment process be an element of the City's annual budget process.

The City's user fees and cost recovery rates have not been comprehensively reviewed for all departments in many years. The City is facing a stated \$54 million deficit for FY 2010, as well as a structural budget deficit. It is critical that the City Council be made aware of where existing user fees are not recovering the full cost of service; what extent the general fund is subsidizing these services; and how much revenue is potentially recoverable. The Kroll report released in August 2006 also recommended "that activities supported by user fees should be fully cost recoverable."

FISCAL/POLICY DISCUSSION

In past reports, the IBA has discussed the need for the City to:

- Identify the full cost of service for activities that charge user fees
- Determine current cost recovery rates for these activities
- Develop "target" cost recovery policies, and
- Propose recommendations to Council for achieving these targets

The policy should outline goals for cost recovery, including a listing showing which city fees fall into categories of various levels of cost recovery, with an explanation of why it may be desirable for some costs to not be fully recovered. A separate administrative regulation should be prepared including formulas for determining appropriate costs, the methodology to determine cost recovery, and instructions for calculating fees. Finally, a Rate Book of Fees should be made available for review, which the policy states will be available both at the City Clerk's office and on the City's website.

The IBA had previously pointed to the need for annual inflationary or other technical adjustments to routinely take place as part of the annual budget process and for a comprehensive user fee study to be conducted every five years. In the proposed policy, a comprehensive user fee study and review of the User Fee Policy is to be conducted every three years. The policy also calls for user fees to be "updated annually as part of the budget process based on CPI inflation estimates or other annually adjusted inflators until the next comprehensive user fee study is undertaken."

It is our understanding that steps are presently being taken to conduct selected departmental user fee reviews. The Mayor's Five-Year Financial Outlook included a possible corrective action in FY 2010 for General Fund user fee increases in the range of \$2.0 - \$5.0 million to help address budgetary shortfalls. The adoption of this policy is the first step toward implementing this action. Financial Management staff has informed the IBA that the following departments are expected to bring user fee proposals to the Budget and Finance Committee:

- San Diego Fire-Rescue
- Park and Recreation
- Engineering and Capital Projects
- Special Events
- City Clerk
- Neighborhood Code Compliance
- Police
- City Treasurer

If fee increases are to be included in the Mayor's Proposed Budget, we recommend the Budget and Finance Committee review these proposals in advance and participate in decision-making relative to cost recovery policies.

A comprehensive user fee study should also be conducted and presented to Council in addition to the proposed user fee policy. Only a comprehensive study of all general fund fees and recovery rates will provide to the Council complete information on present cost recovery rates and will allow for full consideration of all fees. This analysis is necessary for Council to determine any further changes. A timeframe for this should be established.

In addition, our office has other areas of concern which we recommend be addressed in the proposed policy, including:

- Ensuring opportunities for public and other stakeholder input into the formulation of this policy and for proposed new fees or increases
- Ensuring all departments undertake appropriate reviews and bring recommendations forward in a timely fashion
- If significant increases are necessary to achieve cost recovery, possible multi-year phased approaches to bring fees to targeted levels should be considered
- Requiring the Auditor or Comptroller to verify and/or periodically audit cost recovery levels
- Identifying a single point of contact for specific department to maintain the Rate Book and the electronic user fee data that will ensure information is current and accurate
- A list of which fees fall within which category for cost recovery

Some of these details, instructions and procedures could be addressed in an upcoming revision to administrative regulations related to user fees, and may not necessarily be required in a policy document. However, given the recent long-term lapse in user fee updates, it is important that these issues be clarified.

CONCLUSION

The proposed General Fund User Fee Policy is presented in advance of the FY 2010 budget process, with the intention to integrate revenue from new and updated user fees in the FY 2010 Proposed Budget. Pending discussion and recommendations from the Budget and Finance Committee, the proposed policy is expected to be forwarded to the Council for its review and approval.

Concurrently, departments are preparing fee proposals, which will be brought forward to the Committee, with the intention for the implementation of new and/or increased revenues to be incorporated into the FY 2010 Budget. The proposed policy marks important progress in this area. However, a comprehensive user fee study is needed to demonstrate to the Council and the public which City programs are currently being subsidized by the General Fund, and to allow full consideration of user fee increases as an alternative to service reductions in the development of future budgets.

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