

**COUNCIL POLICY
CITY OF CHULA VISTA**

SUBJECT: Citywide Cost Recovery Policy	POLICY NUMBER	EFFECTIVE DATE	PAGE
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ADOPTED BY: Resolution No.: 2010-145

DATED: 06/08/2010

AMENDED BY: Resolution No. (date of resolution)

BACKGROUND:

As the City continues its efforts toward a sustainable budget that will withstand uncertain economic times in the long term, it is appropriate that cost recovery levels be established for services for which a fee is charged. The foundation of effective cost recovery is a well conceived, regularly reviewed policy. Such a policy provides a guideline for setting fees given the full cost of each service, allowing optimum cost-recovery rates for certain services and alleviating unintended subsidization of these services from General Fund resources.

A cost recovery policy provides guidelines for setting fees given the full cost of service. It does not bind policy makers to increasing or decreasing fees, but provides a rationale for doing so. The lower fees are set relative to full cost recovery, the more General Fund dollars are required to maintain the service. This additional support must then be weighed against the other needs for General Fund resources, including needs which may not have similar cost recovery options.

While a primary mission of government is to satisfy community needs, many city services solely benefit specific individuals or businesses. It has been the general policy of the City Council that the public at large should not subsidize activities of such a private interest through general tax revenues. Therefore, the City has established user fees to best ensure that those who use a proprietary service pay for that service in proportion to the benefits received. With few exceptions, such as those services provided for low-income residents, fees have been set to enable the City to recover the full cost of providing those services.

PURPOSE:

The purpose of this Policy is to establish a citywide cost recovery policy, including:

1. Provisions for ongoing review;
2. Process for establishing cost recovery levels (including factors to be considered and general concepts); and
3. Target cost recovery levels for each program offered by the City.

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POLICY:

Provision for Ongoing Review

Fees will be periodically reviewed in order to keep pace with changes in the cost of living and methods or levels of service delivery. In order to facilitate a fact-based approach to this review, a comprehensive analysis of the city's costs and fees should be made at least every five years. In the interim, fees will be adjusted annually each October 1, by either:

1. Annual change in the City's operating budget; or
2. Annual change in the San Diego area's Consumer Price Index for all Urban Consumers

All updates will be based upon the July to July change in the subject index for the prior year (or portion thereof in the instance of mid-year fee updates).

Process for Establishing Cost Recovery Levels

Factors to be Considered

The following factors will be considered when setting cost recovery levels for user fees.

1. Community-wide versus special benefit

The use of general purpose revenue is appropriate for community-wide services while user fees are appropriate for services that are of special benefit to easily identified individuals or groups. Full cost recovery is not always appropriate.

2. Service recipient versus service driver

After considering community-wide versus special benefit for the service, the concept of service recipient versus service driver should also be considered.

Particularly for services associated with regulated activities (development review, code enforcement), from which the community primarily benefits, cost recovery from the 'driver' of the need for the service (applicant, violator) is appropriate.

3. Consistency with City public policies and objectives

City policies and Council goals focused on long term improvements to community quality of life may also impact desired fee levels as fees can be used to change community behaviors,

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promote certain activities, or provide funding for pursuit of specific community goals. For example, the City has historically subsidized building permits for photovoltaic systems in order to promote their use in the community.

4. Elasticity of demand

Pricing of services can significantly impact demand. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is a genuine market, and that it is not over-stimulated by artificially low prices.

Conversely, high levels of cost recovery may negatively impact the delivery of services to lower income groups. This negative feature can work against public policy, especially if the services are specifically targeted to low income groups.

5. Feasibility of collection

Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.

General Concepts

1. Revenues should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, as calculated using the fully burdened hourly rates developed in the City's Cost Allocation Plan (CAP), including direct costs, departmental administration costs and organization wide supports costs such as accounting, personnel, informational technology, legal services, fleet maintenance and insurance.
3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. Rate structures should be sensitive to the 'market' for similar services as well as to smaller, infrequent users of the service.
5. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

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Determination of Cost Recovery Levels

Level I: 0% - 30%

Low cost recovery levels (0%-30%) are appropriate under the following circumstances:

1. There is no intended relationship between the amount paid and benefit received. Almost all 'social service' programs fall into this category.
2. Collecting fees is not cost effective or will significantly impact the efficient delivery of the service.
3. There is no intent to limit the use (or entitlement to) the service. Again, most 'social service' programs fit into this category as well as many public safety services. Historically, access to neighborhood and community parks would also fit into this category.
4. The service is non-recurring, generally delivered on a 'peak-demand' basis, and is not readily available from a private sector source. Many public safety services also fall into this category.
5. Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits fall into this category (hot water heaters, garage sale permits, etc.)
6. The public at large benefits even if they are not the direct users of the service.

Level II: 30% - 70%

Services with factors associated with both Level I and Level III cost recovery levels would be subsidized at a mid-level of cost recovery (30%-70%). See Level I and Level III sections of this Policy for a description of these factors.

Level III: 70% - 100%

Higher cost recovery levels (70%-100%) are appropriate under the following circumstances:

1. The service is similar to service provided through the private sector.
2. Other private or public sector alternatives could or do exist for the delivery of the service.
3. For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
4. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
5. The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.

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Target Cost Recovery Levels by Program

SERVICE AREA / PROGRAM	TARGET COST RECOVERY	
General Government		
City Clerk Fees	III	(70% - 100%)
Information Technology Fees	III	(70% - 100%)
Finance Fees	II	(30% - 70%)
Special Events/Block Parties/Filming	II	(30% - 70%)
Public Safety		
Animal Control Fees	I	(0% - 30%)
Police Department Fees	III	(70% - 100%)
<u>Fire Department Fees, except subsidized permits¹</u>	<u>III</u>	<u>(70% - 100%)</u>
Fire Department Fees, <u>operational-subsidized permits¹</u>	II	(30% - 70%)
Fire Department Fees, construction permits	III	(70% - 100%)
Parking Fees	II	(30% - 70%)
Community Services		
Library Department Fees	I	(0% - 30%)
Recreation Department Fees	II	(30% - 70%)
Development Services		
Building Fees, except subsidized permits¹	III	(70% - 100%)
Building Fees, subsidized permits¹	II	(30% - 70%)
Engineering Fees	III	(70% - 100%)
Planning Fees, except subsidized permits²	III	(70% - 100%)
Planning Fees, subsidized permits²	II	(30% - 70%)
Sewer Fees		
Construction & Connection	III	(70% - 100%)
Sewer Service	III	(70% - 100%)

¹ Subsidized ~~Building-Fire Department~~ permits ~~include-limited to photovoltaic systems and water heater and gas line replacements~~ Fire Company Inspection Program (FCIP).

² ~~Subsidized Planning permits include Large Family Daycare, Historic Designation, and Mills Act Status.~~