

Section 2. USER FEE COST RECOVERY GOALS

A. Ongoing Review

Fees will be reviewed and updated 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.

In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index. Fees may be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery.

B. User Fee Cost Recovery Levels

In setting user fees and cost recovery levels, the following factors will be considered:

1. **Community-Wide Versus Special Benefit.** The level of user fee cost recovery should consider the *community-wide* versus *special service* nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
2. **Service Recipient Versus Service Driver.** After considering community-wide versus special benefit of the service, the concept of *service recipient* versus *service driver* should also be considered. For example, it could be argued that the applicant is not the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery from the applicant is appropriate.
3. **Effect of Pricing on the Demand for Services.** The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. At full cost recovery, this has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly-stimulated by artificially low prices.

Conversely, high levels of cost recovery will negatively impact the delivery of services to lower income groups. This negative feature is especially pronounced, and works against public policy, if the services are specifically targeted to low income groups.

4. **Feasibility of Collection and Recovery.** 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. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.

C. Factors Favoring Low Cost Recovery Levels

Very low-cost recovery levels are appropriate under the following circumstances:

1. There is *no* intended relationship between the amount paid and the benefit received. Almost all "social service" programs fall into this category as it is *expected* that one group will subsidize another.
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 of (or entitlement to) the service. Again, most "social service" programs fit into this category as well as many public safety (police and fire) emergency response 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" or emergency basis, cannot reasonably be planned for on an individual 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 might fall into this category.

D. Factors Favoring High Cost Recovery Levels

The use of service charges as a major source of funding service levels is especially appropriate under the following circumstances:

1. The service is similar to services 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.

E. General Concepts Regarding the Use of Service Charges

The following general concepts will be used in developing and implementing service charges:

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, including direct costs, departmental administration costs and organization-wide support costs such as accounting, personnel, information 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.

F. **Low Cost-Recovery Services**

Based on the criteria discussed above, the following types of services should have very low-cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for the operation as a whole should be general-purpose revenues, not user fees.

1. Delivering public safety emergency response services such as police patrol services and fire suppression.
2. Maintaining and developing public facilities that are provided on a uniform, community-wide basis such as streets, parks and general-purpose buildings.
3. Providing social service programs and economic development activities.

G. **Recreation Programs**

The following cost recovery policies apply to the City's recreation programs:

1. Cost recovery for activities directed to adults should be relatively high.
2. Cost recovery for activities directed to youth and seniors should be relatively low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.

Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community-wide benefit in encouraging high-levels of participation in youth and senior recreation activities regardless of financial status.

3. Cost recovery goals for recreation activities are set as follows:

High-Range Cost Recovery Activities - (60% to 100%)

- a. Adult athletics

- b. Banner permit applications
- c. Child care services
- d. Facility rentals (indoor and outdoor; excludes use of facilities for internal City uses)

Mid-Range Cost Recovery Activities - (30% to 60%)

- e. Triathlon
- f. Golf
- g. Summer and Spring Break Camps
- h. Classes
- i. Major commercial film permit applications

Low-Range Cost Recovery Activities- (0 to 30%)

- j. Aquatics
- k. Community gardens
- l. Junior Ranger camp
- m. Minor commercial film permit applications
- n. Skate park
- o. Parks and Recreation sponsored events (except for Triathlon)
- p. Youth sports
- q. Teen services
- r. Senior/boomer services

4. For cost recovery activities of less than 100%, there should be a differential in rates between residents and non-residents. However, the Director of Parks and Recreation is authorized to reduce or eliminate non-resident fee differentials when it can be demonstrated that:
 - a. The fee is reducing attendance.
 - b. And there are no appreciable expenditure savings from the reduced attendance.

5. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special-use areas, and recreation equipment for activities not sponsored or co-sponsored by the City. Such charges will generally conform to the fee guidelines described above. However, the Director of Parks and Recreation is authorized to charge fees that are closer to full cost recovery for facilities that are heavily used at peak times and include a majority of non-resident users.

6. A vendor charge of at least 10 percent of gross income will be assessed from individuals or organizations using City facilities for moneymaking activities.

7. Director of Parks and Recreation is authorized to offer reduced fees such as introductory rates, family discounts and coupon discounts on a pilot basis (not to exceed 18 months) to promote new recreation programs or resurrect existing ones.

8. The Parks and Recreation Department will consider waiving fees only when the City Manager determines in writing that an undue hardship exists.

H. **Development Review Programs**

The following cost recovery policies apply to the development review programs:

1. Services provided under this category include:
 - a. Planning (planned development permits, tentative tract and parcel maps, re-zonings, general plan amendments, variances, use permits).
 - b. Building and safety (building permits, structural plan checks, inspections).
 - c. Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments).
 - d. Fire plan check.
2. Cost recovery for these services should generally be very high. In most instances, the City's cost recovery goal should be 100%.
3. However, in charging high cost recovery levels, the City needs to clearly establish and articulate standards for its performance in reviewing developer applications to ensure that there is "value for cost."
4. **Building Permit Plan Check Services** – The City of San Luis Obispo offers building permit plan check services through consultants at a set price, not to exceed 65% of the City's fee for the service. Building Permit Plan Check Services are offered by the City on a 100% cost-recovery basis, and the service is provided after the fee is paid in full. As a result, the Finance Director is authorized to make appropriations from the related revenue account to cover the cost of the services provided.

I. **Comparability with Other Communities**

In setting user fees, the City will consider fees charged by other agencies in accordance with the following criteria:

1. Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for several reasons:
 - a. They reflect the "market" for these fees and can assist in assessing the reasonableness of San Luis Obispo's fees.
 - b. If prudently analyzed, they can serve as a benchmark for how cost-effectively San Luis Obispo provides its services.
2. However, fee surveys should never be the sole or primary criteria in setting City fees as there are many factors that affect how and why other communities have set their fees at their levels. For example:

- a. What level of cost recovery is their fee intended to achieve compared with our cost recovery objectives?
 - b. What costs have been considered in computing the fees?
 - c. When was the last time that their fees were comprehensively evaluated?
 - d. What level of service do they provide compared with our service or performance standards?
 - e. Is their rate structure significantly different than ours and what is it intended to achieve?
3. These can be very difficult questions to address in fairly evaluating fees among different communities. As such, the comparability of our fees to other communities should be one factor among many that is considered in setting City fees.