



## Legislation Details (With Text)

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|-----------------------|---|----------------------|---|----------------------|---|
| <b>File #:</b>        | 21-0288   | <b>Version:</b>      | 1 | <b>Name:</b>         | FM - Results of the user fee and cost recovery studies for DS, DHHS and PRM |
| <b>Type:</b>          | Agenda Item   | <b>Status:</b>       |   | <b>Status:</b>       | Approved  |
| <b>File created:</b>  | 3/15/2021   | <b>In control:</b>   |   | <b>In control:</b>   | City Council  |
| <b>On agenda:</b>     | 4/6/2021  | <b>Final action:</b> |   | <b>Final action:</b> | 4/6/2021  |
| <b>Title:</b>         | Recommendation to receive and file the results of the user fees and cost recovery studies for the Development Services, Health and Human Services, and Parks, Recreation and Marine Departments and associated departmental recommendations. (Citywide) |                      |   |                      |   |
| <b>Sponsors:</b>      | Financial Management  |                      |   |                      |   |
| <b>Indexes:</b>       |   |                      |   |                      |   |
| <b>Code sections:</b> |   |                      |   |                      |   |
| <b>Attachments:</b>   | 1. 040621-R-26 Revised.pdf, 2. 040621-R-26 PowerPoint.pdf   |                      |   |                      |   |

| Date     | Ver. | Action By    | Action                 | Result |
|----------|------|--------------|------------------------|--------|
| 4/6/2021 | 1    | City Council | approve recommendation | Pass   |

Recommendation to receive and file the results of the user fees and cost recovery studies for the Development Services, Health and Human Services, and Parks, Recreation and Marine Departments and associated departmental recommendations. (Citywide)

At the direction of the City Council, staff initiated a Citywide Fee Study (Study) in 2019 to conduct a comprehensive cost of service analysis for the City's numerous fees and charges for services across various City departments. Conducting this Study complies with the City Council's Financial Policy on Fees. That policy indicates that "User Fees and Charges will be set at the cost of the service" and that "Fees will be set to fully recover costs, except where there is a greater public benefit through use of a lower fee, such as where full recovery may adversely impact overall revenue or may discourage participating in programs where the participating benefits the overall community. The City Manager will establish a process for in-depth review of all fees over time. The review, while eventually covering all fees, should emphasize those that have or may have significant subvention (may not be at full cost)."

On August 20, 2019, the City selected the consultant Revenue and Cost Specialist (RCS) to work with City staff to identify services offered by each department, calculate the full cost of service including labor, benefits, materials, supplies, and overhead/administrative expenditures, and calculate subvention levels for each service. In addition, the Study for each department reports:

- The current fees compared to a proposed fee based on the actual cost of the services;
- Recommendations for potential new or adjusted fees and charges for service; and,
- Recommendations for alternative or adjusted fee structures.

The Study includes providing a cost of service model for each department to update on a

move-forward basis to allow departments to better assess the cost of service and subvention levels associated with each fee.

The Study is a multi-year effort and started with the Development Services, Health and Human Services, and the Parks, Recreation and Marine Departments. On August 19, 2020, staff provided an update on the Study to the Budget Oversight Committee, which included preliminary study results for the Health and Human Services Department's Vital Records, Travel Immunization, and Laboratory Services. Since then, RCS has completed the cost of services studies for the Development Services, Health and Human Services, and Parks, Recreation and Marine Departments across various services. See Attachment A for the cost of services studies for each of these departments.

Each study identifies the fee levels that would be required to provide full cost recovery. The studies also identified services where fees and charges would need to be increased to eliminate subsidies and also services where fees were over-recovering costs. In addition, the studies and department recommendations include various restructuring of current fees to align the fee structure to services provided by these departments.

The Development Services and Parks, Recreation and Marine Departments have developed recommendations on proposed fee changes based on the Study's recommendations. In most cases, the departments' fee change proposal aligns with the recommendations made in the Study to align rates to full cost recovery. However, in some cases the department has deviated from the recommendations due to the consideration of factors such as a City goal to have more participants where a fee with full cost recovery will limit participation.

The Health and Human Services Department is not proposing any fee changes at this time. The department will re-review Study recommendations and potentially move forward with proposed fee increases as part of the FY 22 budget process.

Each department's proposed changes related to the cost of services studies are included in Attachment B, which also includes proposed fee deletions largely related to recommended changes to the fee structure to better align with services. These fee changes will be brought to the City Council for formal approval in May 2021.

With studies completed for the Development Services, Parks, Recreation and Marine, and a portion of the Health and Human Services Departments, the next round of the Study is in progress with the Energy Resources, Police, and Public Works Departments. Preliminary results from these studies are anticipated in Summer 2021, with recommendations potentially incorporated as part of the FY 22 proposed budget process. Subsequent departments and services will be reviewed as the departments currently being reviewed are completed. All department studies are expected to be completed in 2022.

This matter was reviewed by Deputy City Attorney Amy R. Webber on March 17, 2021 and by Revenue Management Officer Geraldine Alejo on March 16, 2021.

City Council action is requested on April 6, 2021, to move forward with the proposed changes anticipated to return to the City Council for approval in May 2021.

The Study recommends fee levels to align with full cost recovery and eliminate subvention for services within the Development Services, Health and Human Services, and Parks, Recreation and Marine Departments. No changes to the Master Fees and Charges Schedule are proposed at this time. The proposed changes will be submitted to the City Council for formal approval as part of the citywide changes to the Master Fees and Charges Schedule. At that time, if approved by the City Council, the resulting fee changes proposed by these departments are estimated to generate additional annual revenues totaling \$2,030,978. Estimated annual revenues are based on anticipated usage and will vary depending on market or economic conditions. Estimated revenue change per impacted fund group is as follows:

| <b>Fund Group</b>    | <b>Estimated Revenue Change</b> |
|----------------------|---------------------------------|
| General Fund         | \$ 511,326                      |
| Development Services | \$ 1,426,800                    |
| Housing Development  | \$ 32,100                       |
| Tidelands Operating  | \$ 60,752                       |
| <b>TOTAL</b>         | <b>\$ 2,030,978</b>             |

Increasing fees at the rates suggested by the Study to achieve cost recovery is a significant policy decision by the City Council as there are two competing goals - (1) keeping the cost of services and development low to the community; or (2) achieving less subsidy and higher cost recovery through increased financial participation by the direct user. City Council input on these concepts are welcome as staff builds the Proposed FY 22 Budget.

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

JOHN GROSS  
INTERIM DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA  
CITY MANAGER