



Cost Recovery Plan

Fee Policy

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By Melissa Neel

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Why set a fee policy

Setting a fee policy serves as a tool for evaluating services and establishing appropriate fees. Standardizing how we set prices ensures that the resulting fee meets Department goals and provides the framework to ensure consistency for all San Marcos residents for the value received. A fee policy creates transparency and consistency in fees and charges for programs and services. A fee policy helps administrators continually set fees that support the goals and priorities of the community.

Statement of Philosophy

The City of San Marcos is dedicated to providing quality services, fostering healthy lifestyles and helping the community thrive. Our Goal is to enhance lives and the community by providing exceptional experiences. As the City continues to grow and facilities age, we must be prepared to maintain this high level of service and develop a financial system to continue this community investment.

Fee Policy takes into consideration the public benefit, users' ability to pay, level of benefit and exclusivity the user receives above what a general taxpayer receives. Pricing ensures that users pay appropriate fees and available taxpayer funds are used to achieve the optimal return on investment and ensure access to parks and programs.

Objectives

This formal fee policy establishes a comprehensive long-term strategy to address current and future needs of the San Marcos community. The objectives of effective pricing are:

Revenue Production – Producing revenue assists in the overall operations of the Department. It provides flexibility to offer programs which may not otherwise be possible if they are not funded through tax dollars.

Efficiency – Expenditures are made with the most efficient use of our resources so the right mix of programs, facilities and events are offered. Priorities are made to enhance the customer's experience.

Revenue Matching – Revenues are matched to the cost center providing expenditures. This pays for direct costs, and indirect costs.

Assistance – Not all customers have the same ability to pay and opportunities must exist to waive, reduce or provide discount opportunities where appropriate. It is not a sustainable practice to keep fees artificially low in order to ensure that all can afford to pay.

Pricing Structure

Each fee area is assigned to one of 5 program groups based upon an assessment of its service and cost recovery values, Group 1 being comprised of the activities that tend more strongly toward service values being of primary consideration, and Group 5 being composed of the activities that tend most strongly toward cost recovery values being of primary consideration.

Services/programs (fee areas) are assessed for placement in these groups using the following criteria:

Group 1: Community Programs/Services - Represents those programs, facilities and services that benefit the community as a whole. These programs, facilities and services increase property values, provide safety, address social needs, and enhance quality of life for the residents. The community generally expects the city to offer these services and supports paying for these basic services and facilities through taxes. These services are offered to residents at minimal or no fee.

Group 2: Community/Individual Programs/Services - Represents those programs, facilities and services that promote individual physical and mental well-being, and provide recreational skill development. They are generally the more traditionally expected services and beginner instructional levels. These programs, services and facilities shall be assigned fees based on a specified percentage of direct and indirect costs that represents a tax subsidy to account for the COMMUNITY Benefit and participant fee to account for the Individual Benefit.

Group 3: Individual/Community Programs/Services - Represents services that promote individual physical and mental well-being, and provide an intermediate level of recreational skill development. This level provides more INDIVIDUAL and less Community Benefit and should be priced to reflect this. This individual fee recovers more costs or has a higher cost recovery goal than programs and services that fall within the lower levels of the pricing groups.

Group 4: Highly Individual Programs/Services - Represents specialized services generally for specific groups with a competitive focus. In this level, programs and services should be priced to recover full costs.

Group 5: Mostly Individual Programs/Services - Represents specialized services generally for specific groups with a competitive focus. In this level, programs and services should be priced to recover full cost including all direct and department indirect cost and may also include an additional fee.

Perceived Community Benefit- Consideration of the community's perception of community benefit, versus individual user benefit, resulting from the provision of each service. Programs seen as having greatest community benefit are rated as higher for service/investment value, while programs seen as benefiting more the user are rated higher for cost recovery expectations.

Alternative Providers - Programs for which there are no alternatives to our service or for which access to alternatives is limited by limited availability or notably higher fees are rated relatively higher for service/investment value. Programs for which comparably priced and adequately available alternatives could be accessed are rated relatively higher for cost recovery expectations.

- Two cost recovery thresholds are identified as general guidelines for each Group- Minimum and Target. Each fee area within a group is assessed based upon its unique criteria, and specific Minimum and Target cost recovery thresholds are established for each fee area that may be somewhat different from the general guidelines for that Group. These thresholds are based upon the cost tiers identified below.
- Where applicable, a given fee area may have additional pricing considerations that may

supersede the Cost Recovery thresholds as the primary consideration in price setting.

- The costs for each fee area are identified in the following tiers:

Expenses-

- **Direct:** The specific costs at the service or fee area. These include leaders, instructors and materials or services (e.g. transportation) specific to the service or fee area.
- **Overhead:** Direct supervision of the fee area, and minor miscellaneous items such as supervisor mileage, receptionist, custodial services, supplies, utilities.
- **Indirect:** Division level and shared costs, such as departmental management, brochure, printing, photocopying, training, accounting support, technology, credit card discount costs, administrative office clerical support, computer, and recreation equipment sinking fund charges, and on-going facility maintenance and repairs.

Guidelines

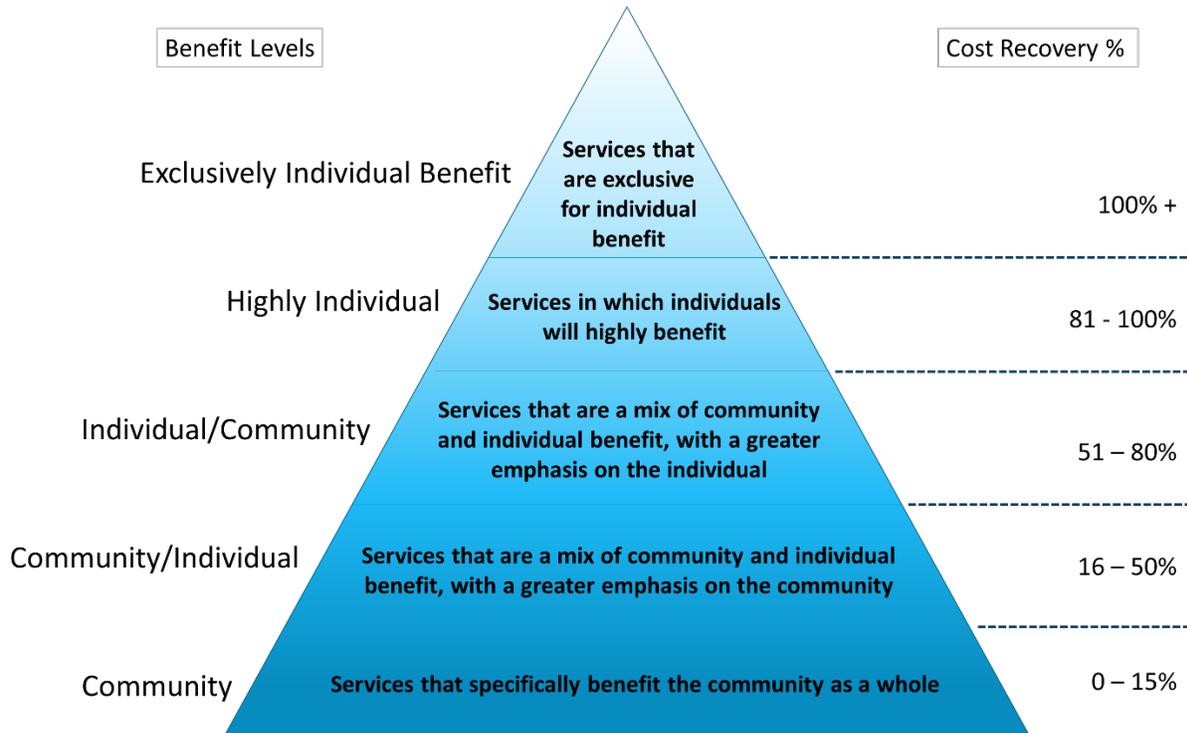
The following shall serve as the policy guidance for establishing a Cost Recovery Plan, developing annual budgets, and establishing fees to be charged for each fee area. The specific elements of this policy are that:

- The Cost Recovery Plan and Fee Policy, as show in the diagram (see pg. 6), shall be used.
- In recognition of the wide variety of service values and revenue generating potentials of various fee areas, specific cost recovery thresholds shall be established for each area at the most specific programming level that is administratively practical.
- The thresholds shall include both minimum and target levels of cost recovery.
- Fee areas unable to meet their minimum threshold shall be reviewed by Department Staff and governing advisory board for consideration of recommending appropriate action: reduce costs; reduce cost recovery target; eliminate fee area.
- Strategies for achieving the target threshold shall be established by staff for each fee area. These strategies may include immediate or gradual action depending upon the best interests of maintaining a strong program, achieving the target within a reasonable time period and current fiscal conditions.
- Activities that have achieved or exceeded their target threshold shall be evaluated to determine if the target can/should be increased.
- The Fee Policy may also include specific other fee considerations (e.g. benchmarking to a specific competitor) that may supersede cost recovery target considerations.
- Once a Cost Recovery Plan is established, and within that context, staff shall have the ability to set

and adjust fees, except that no fee increase shall exceed 10% within a 1-year period without the review of the advisory board or approval of the City Council within their annual update of fees for programs and services.

- As part of the budgetary process, Department staff shall review the Cost Recovery Plan and the performance of each fee area compared to the plan. Recommendations for changes to those plans would be presented first to the governing advisory board where appropriate, then to City Council.
- Baseline calculation within the Cost Recovery Plan will be derived from the Cost of Service Study (typically every 3 years). In each year without the cost of service study Department Staff has the authority to increase fees by the Consumer Price Index (CPI).
- Non-residents may be assessed a 100 - 200% additional fee for services (amount pending impact analysis)
- Eligible discounts shall be available to defined groups (e.g. senior citizens, homeowners)

Fee Policy Diagram: Cost Recovery Pyramid



$$\text{Fee} = (\text{Cost Recovery \%}) * \text{Cost of Service} / \# \text{ of participants}$$

Setting the Price

While not quite as simple as determining the costs and applying the recovery goal, this is the basic concept behind determining the price. The pricing pyramid assists us in establishing the base level of cost recovery and where the program/service fits. We then look at our revenue goals and other pricing factors to establish the price for the program/service. This can be done with the use of a multiplier for each fee area or through individual analysis. Just as the expenditures and recovery goals vary for each program/service/facility, so does the pricing methods and actual determination of the price. A pricing model is developed for each fee area and assists staff in determining the price.

Pricing Process

To successfully determine price, the Department takes the following steps:

- Group fee areas into benefit categories (1 – 5)
- Gather direct and indirect costs and participants
- Establish cost recovery goals
- Seek stakeholder feedback
- Present plan to advisory board
- Determine fee
- Present to Council for adoption

Summary

The City of San Marcos strives to maintain its reputation for providing exceptional parks, places, programs and services at a good value to our taxpayers and customers and for preserving and protecting our City's natural resources. Our community size and population is expected to experience rapid growth over the next twenty years and our Departments must be prepared to grow accordingly. The formalization of our fee policy provides us with a comprehensive long-term strategy to address current and future needs of the San Marcos community and demands upon the Departments.

Table of Targets

Group 1: Community Programs/ Services - Represents those programs, facilities and services that benefit the community as a whole.

Fee Area	Description	Minimum	Target	Other Fee Considerations
Farmer Fred Carnival		100% Subsidy	100% Subsidy	Sponsorship opportunities

Group 2: Community/Individual Programs/ Services - Represents those programs, facilities and services that promote individual physical and mental well-being, and provide recreational skill development.

Fee Area	Description	Minimum	Target	Other Fee Considerations
Youth Sports Leagues	Leagues that are organized by our department: Tot Soccer, basketball	35%	50%	Benchmark fees to mid-point of area service providers

Group 3: Individual/Community Programs/ Services - Represents services that promote individual physical and mental well-being, and provide an intermediate level of recreational skill development.

Fee Area	Description	Minimum	Target	Other Fee Considerations
Youth swim team Activity Center	Organized by 3 rd party	75%	80%	Benchmark fees to mid-point of area service providers

Group 4: Highly Individual Programs/ Services - Represents specialized services generally for specific groups with a competitive focus.

Fee Area	Description	Minimum	Target	Other Fee Considerations
Building Permits	Cannot exceed recovery of reasonable expenditures by state law	70%	100%	

Group 5: Mostly Individual Programs/ Services - Represents specialized services generally for specific groups with a competitive focus.

Fee Area	Description	Minimum	Target	Other Fee Considerations
Adult Sports Tournaments	Competitive adult sport tournaments	100%	115%	Peer city comparison