



Fee Policy



City of San Marcos

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Executive Summary

Introduction

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 high levels of service and develop a financial system to continue this community investment.

Fees for services and programs were held flat for many years. Throughout those years cost continued to increase resulting in more demand on tax payer dollars to fund City programs and services. In 2016 City Council adopted fee increases to recover cost and insure continuous services and program offerings to the community. In order to properly align costs and plan for the future a structured financial system was necessary and a Fee Policy has been developed.

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 for programs and services. A fee policy helps administrators continually set fees that support the goals and priorities of the community.

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 programs and services.

City of San Marcos' Fee Policy has been established on the basis of Cost Recovery methodology as it relates to Cost of Service. Cost of Service is an identification and calculation of what is required financially to produce or operate a service. Cost Recovery is a complex subject. Essentially, it represents a decision to generate revenues by charging fees, or other types of revenue, for some, or all, programs and services, relative to the total operational costs to provide them. Cost recovery does not imply that the target is total recovery of the cost; however, a target is established according to a variety of considerations and may range from 0% to more than 100% of costs. As cost recovery is defined differently in nearly every organization, this document discusses Cost Recovery as it relates to the City of San Marcos.

Purpose and Goals

This formal fee policy establishes a comprehensive long-term strategy to address current and future needs of the San Marcos community. This comprehensive effort and approach to providing services is undertaken to introduce and implement strong "best practice" business tools to all City Departments. The overall goal of this plan is to initiate and sustain practices and examine policy and rules affecting overall desired outcomes of a healthy and vibrant community.

Goals are to:

- Analyze current service levels and the resources to meet workload demand.
- Develop a sustainable and justifiable philosophy, supporting policy, and cost model for calculating fees.

- Generate revenue to support overall operating costs for each department and plan for future needs.
- Utilize the most efficient use of City resources and expenditures.
- Provide assistance to those unable to pay through reduced fees and/or alternative funding sources.

A Methodology, a Plan, and a Policy

Having a Fee Policy and Cost Recovery Plan assists in answering challenging questions such as:

- Are our programs priced fairly and equitably?
- Are we using funding in a responsible manner?
- Is there a methodology for the distribution of tax payor dollars?
- Does the way we charge for programs and services support our core values and goals?

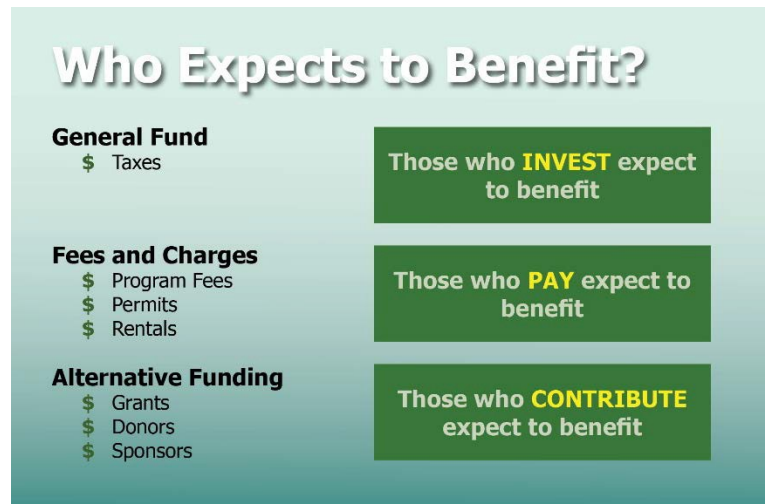
A Best Practice Tool

This comprehensive effort and approach to providing services is undertaken to introduce and implement strong “best practice” business tools to the departments. The overall goal of this plan is to initiate and sustain practices to achieve overall desired outcomes of a healthy and vibrant community.

Resource Allocation and Cost Recovery Defined

Resource allocation is how appropriated tax dollars and alternative sources of funding are used. Cost recovery is the amount of the annual operating budgeted expense that can be offset by funding from sources other than general taxpayer dollars (whether derived from property, sales, or other sources).

Although fee adjustments are possible, the goal is not to simply generate new revenues through fees, but to ensure a sustainable system into the future by using tax revenues and fees in the most appropriate ways, supplemented where possible by grants, donations, partnerships, and other sources of alternative revenues. Paying taxes typically supports “core services,” whereas fees and charges usually account for programs and services that benefit individuals. This practice allows the City to allocate its resources wisely and provide valuable information for decision making and setting priorities for improvements and changes to the financial system.



Determining the Cost of a Program or Service

Dollars spent will be accounted for specifically by programs and services offered. “Direct” costs include expenses such as the cost of an instructor, including benefits, supplies needed, equipment rented, etc. “Overhead” costs within each department are shared among several programs or services within a division. Indirect Cost includes the cost of leadership and other shared costs that are allocated among applicable programs and services.



Staff and Stakeholder Engagement

A team of staff members formed to develop and implement Fee Policy with the goal to gather input from staff and stakeholder groups for the development of a cost recovery philosophy. This model, based on the Cost Recovery Pyramid Methodology, defined below, will be a component of ongoing planning and budgeting processes. At the workshops, participants were asked to identify where programs and other inter-related core services fit within the pyramid model based on the benefit the user received for a program or service.

By using feedback from the stakeholders to look at programs and services in this way, staff can set a program’s cost-recovery goal relative to the amount of community benefit a category of service provides. Programs and services considered to have higher individual benefits will be recommended to have a higher cost recovery ratio.

The Cost Recovery Pyramid Methodology

The pyramid methodology used in development of the Cost Recovery Model is built on a foundation of understanding who is benefiting from programs and services to determine how the costs for service should be paid.

The Cost Recovery Pyramid Model illustrates a pricing philosophy based on establishing fees commensurate with the benefit received. Descriptions regarding each level of the pyramid are provided; however, the model is intended as a discussion point and is very dependent on each department to determine what programs and services belong on each level. Cultural, regional, geographical, and resource differences play a large role in this determination. The resulting pyramid is unique to each department that applies this methodology.

Application of the pyramid methodology begins with the mission of the organization, but must also address other considerations:

- Who benefits from the service, the community in general or only the individual or group receiving the service?
- Does the individual or group receiving the service generate the need (and therefore the cost) of providing the service?
- Will imposing the full cost fee pose a hardship on specific users? (The ability to pay is

different than the benefit and value of a program or service, and therefore, should be dealt with during the implementation phase of pricing and community outreach.)

- Do community values support taxpayer investment for the cost of service for individuals with special needs (for example, people with disabilities or low-income)?
- Will the level of the fee affect the demand for the service?
- Is it possible and desirable to manage demand for a service by changing the level of the fee?
- Are there competing providers of the service in the public or private sector?

The application of the model is broken down into the following steps:

Phase I: (see Appendix: Cost Recovery Plan – Phase I) Appendix: Cost Recovery Plan – Phase I)

1. Assign all programs and services to a benefit level (1 – 5) within the Cost Recovery Pyramid
2. Reach out to stakeholder groups for feedback

Phase II:

3. Establish cost recovery goals for each program and service
4. Gather cost and participant data

Phase III:

5. Calculate initial fees
6. Adjust fees based on special circumstances
7. Present plan to boards or stakeholder groups
8. Present plan to City Council for Adoption

Step 1: Understanding the Pyramid Methodology and Who Benefits

The creation of a cost recovery allocation philosophy and policy is a key component to maintaining financial control, equitably pricing offerings, and helping to identify core services and programs.

The principal foundation of the pyramid is determining who received the benefit. Each level of the pyramid from the bottom to the top is described below (see Appendix: Cost Recovery Pyramid). Each user fee is assigned to one of 5 levels within the pyramid based upon an assessment of its service and cost recovery values, Group 1 being composed of the programs/services that tend more strongly toward community service values being of primary consideration, and Group 5 being composed of the programs/services that tend most strongly toward cost recovery values being of primary consideration.

Services/programs are assessed for placement within the pyramid using the following criteria:

Group 1: Community Programs/Services - Represents those programs and services that benefit the community as a whole. These programs 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 through taxes. These services are offered to residents at minimal or no fee.

Group 2: Community/Individual Programs/Services - Represents those programs 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.

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 pyramid.

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, overhead, and indirect cost and may also include an additional fee.

Step 2: Reaching Out to Stakeholders

Stakeholder feedback is a key component in the implementation of cost recovery. Stakeholders may consist of formal advisory boards, staff members, or the general public. Each department may define their stakeholder groups differently for executing their goals and meeting the needs of the community. The benefit groups within the pyramid structure will be assigned by city staff then presented to stakeholder groups for feedback.

Step 3: Determining Cost Recovery Levels

In recognition of the wide variety of service levels 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. Activities that have achieved or exceeded their target threshold shall be evaluated to determine if the target can/should be increased.

Step 4: Defining Costs

The definition of direct, overhead and indirect costs can vary across departments. The most important aspect to understand is that all costs associated with directly running a program or providing a service are identified and consistently applied across the system. Direct costs typically include the specific, identifiable expenses associated with providing a service. These expenses would not exist without the service and may include variable costs.

The Departments have defined direct, department overhead, and indirect costs as follows:

DIRECT COST:

Direct costs are those costs that are directly attributable to efforts to put on a program or service. Examples are direct personnel costs to include benefits, supplies, direct marketing, facility rates, transportation, and direct contract services.

DEPARTMENT OVERHEAD COST:

Direct supervision of the fee area, and minor miscellaneous items such as supervisor mileage, administrative support, custodial services, facility maintenance, and utilities.

INDIRECT COST:

Indirect costs are not directly attributable to a program or service, but are necessary to support the effort. Division level and shared costs, such as departmental leadership, accounting support, technology, administrative support, computer (software, license, hardware etc), and on-going facility maintenance and repairs.

It is Staff recommendation to not allocate indirect cost to any user fee within the first three years of the policy implementation to evaluate the impact of the fee structure on the community and review cost recovery performance measures.

Cost Accounting at the Program/Service Level is Challenging

The process of accounting for expenses in a more detailed, consistent manner in order to readily identify the cost recovery rates for each category of service can be challenging. The initial effort is considered to be a start, and work will continue, particularly during the first year of implementation, to further refine the calculations. During the first year of implementation, staff will have the opportunity to respond to the volume of information that is now available to them, allowing them to further refine definitions and calculations, and re-evaluate early decisions made in this process. During the Cost of Service study each department will have the opportunity to revise and update calculations.

The accounting system is not currently setup to track expenditures at the activity level. The structure needs to be modified to allow coding at the activity level so that cost recovery can be accurately measured and used as an effective planning tool. Each year will reflect improved reporting capabilities leading to increased accuracy and continuous process improvement.

Step 5: 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 pyramid assists us in establishing the base level of cost recovery and where the program/service fits. Just as the expenditures and recovery goals vary for each program/service, so does the pricing methods and actual determination of the price. A pricing model is developed for each user fee and assists staff in determining the price.

Fee Calculation: $(\text{total cost} * \text{cost recovery \%}) / \# \text{ of participants}$

The initial fee is not the final price. There are many influential factors and considerations each department goes through before determining a price to present to stakeholder groups and then to City Council for adoption with the annual budget each year.

Step 6: Understanding and Preparing for Influential Factors and Considerations

Inherent to sorting programs onto the pyramid model using the program benefits and other criteria is the realization that other factors come into play. These factors can aid in determining final price adjustments. Such factors could be local competitors, peer city comparison, economic indicators, or political influence. It is not a sustainable practice to keep fees artificially low in order to ensure that all can afford to pay.

Adjusting fees and charges to reflect a value-based approach to pricing is only one strategy to maximizing cost recovery and leveraging existing funding. Measuring cost recovery provides indications

of services that should be examined for cost saving or avoidance tactics. Expenses may be minimized through avenues such as restructuring of programs, management efficiencies, and partnering with outside agencies.

Options are available for those with economic need. San Marcos provides discount opportunities that vary by department. Such opportunities may include: multi-child discounts, early bird registration, or scholarships. All fee reductions are subject to change and dependent on funding availability.

Step 7: Implementation

The departments have set their goals based upon core values, stakeholder input, funding availability, and other criteria. Some recommendations are scheduled to occur immediately, and others will take time to put into place, while some will be implemented incrementally. It is important that fee change tolerance levels are considered.

Once a final price has been determined by department staff the complete Cost Recovery Plan will be presented to stakeholder groups for feedback. Each department will then revise any necessary changes to present final Cost Recovery Plan with all user fees to City Council during the annual budget process. Some departments will strategically set price adjustments to occur incrementally over several years to reach cost recovery targets, where other departments may choose to only modify price once every 3 – 5 years with cumulative price adjustments.

Step 8: Evaluation

This process has been undertaken in order to articulate a philosophy and a best practice ongoing approach to cost recovery across all departments within the City. Performance measures have been established through cost recovery targets, specific recommendations have been made for programs/services found to be out of alignment, and evaluation of goal attainment is recommended to take place annually. Current cost recovery will be refined over the first year of implementation for each department as steps are taken to more accurately account for revenues and expenditures by service area.

This first-year implementation of the Cost Recovery Plan will allow communication of the methodology, policy, and adjustment of fees as indicated by the Cost Recovery Plan. It will also allow for staff to see the implications for overall cost recovery; identify any currently unknown market, historical, and political considerations; and provide staff experience in using the methodology.

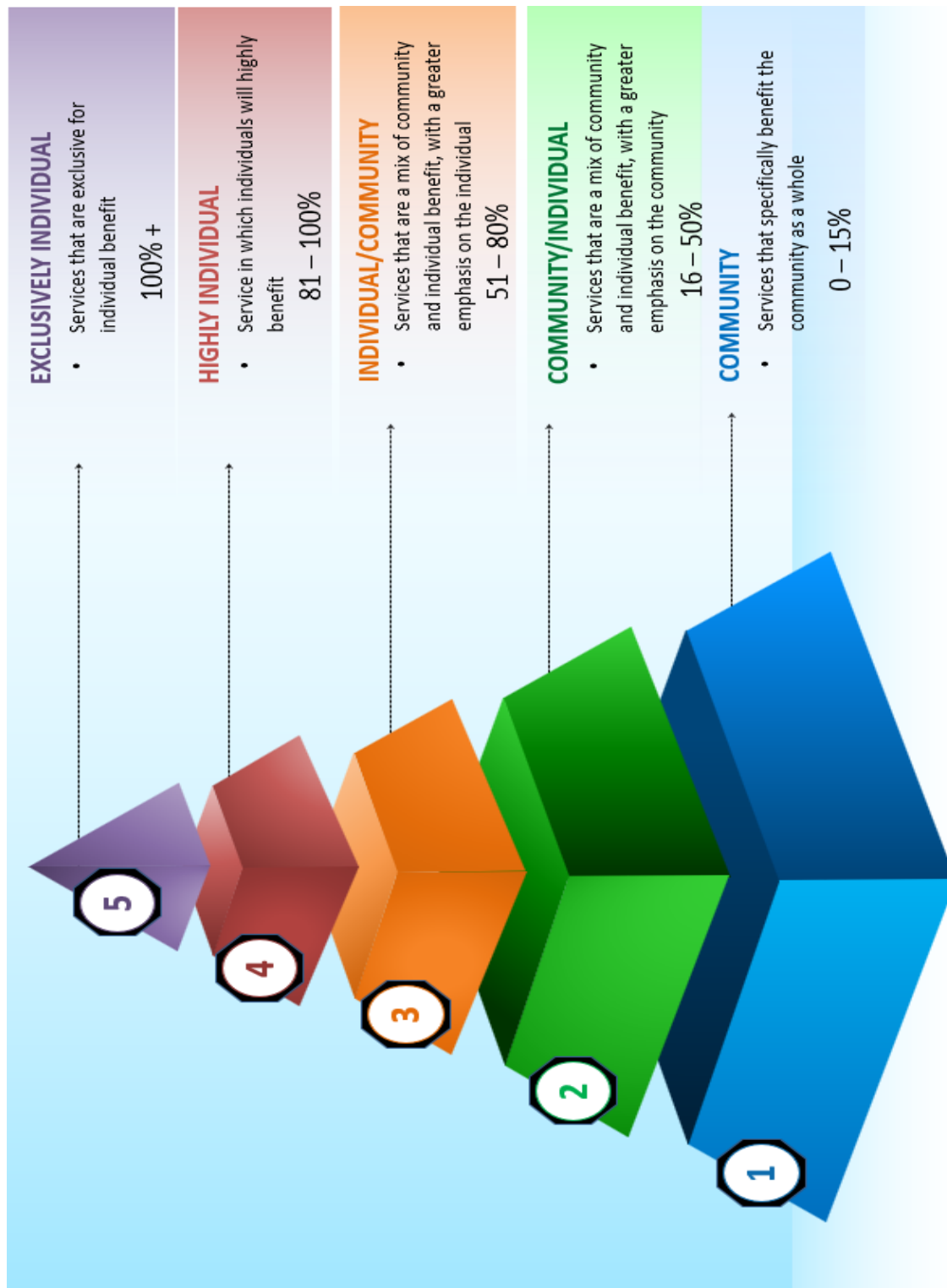
Conclusion

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.

Through the Fee Policy and Cost Recovery recommendations, the City of San Marcos is taking on a very aggressive goal of meeting its cost recovery targets. This can be accomplished through a combination

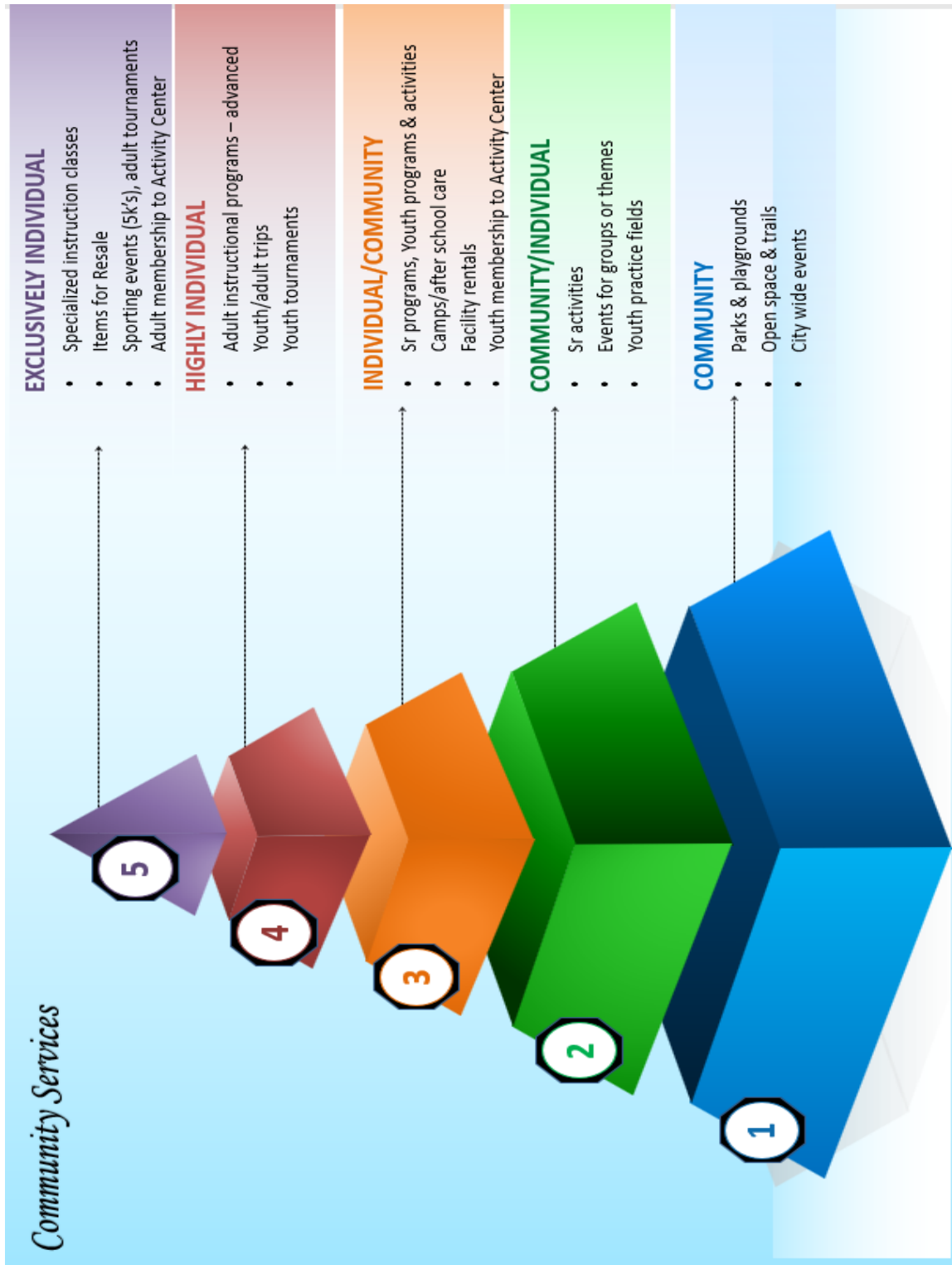
of cost saving measures, fee increases, and seeking of alternative forms of revenue. Annual adjustments will need to be sensitive to citizen tolerance as citizens consider their needs and how they will spend their discretionary dollars.

Appendix: Cost Recovery Pyramid

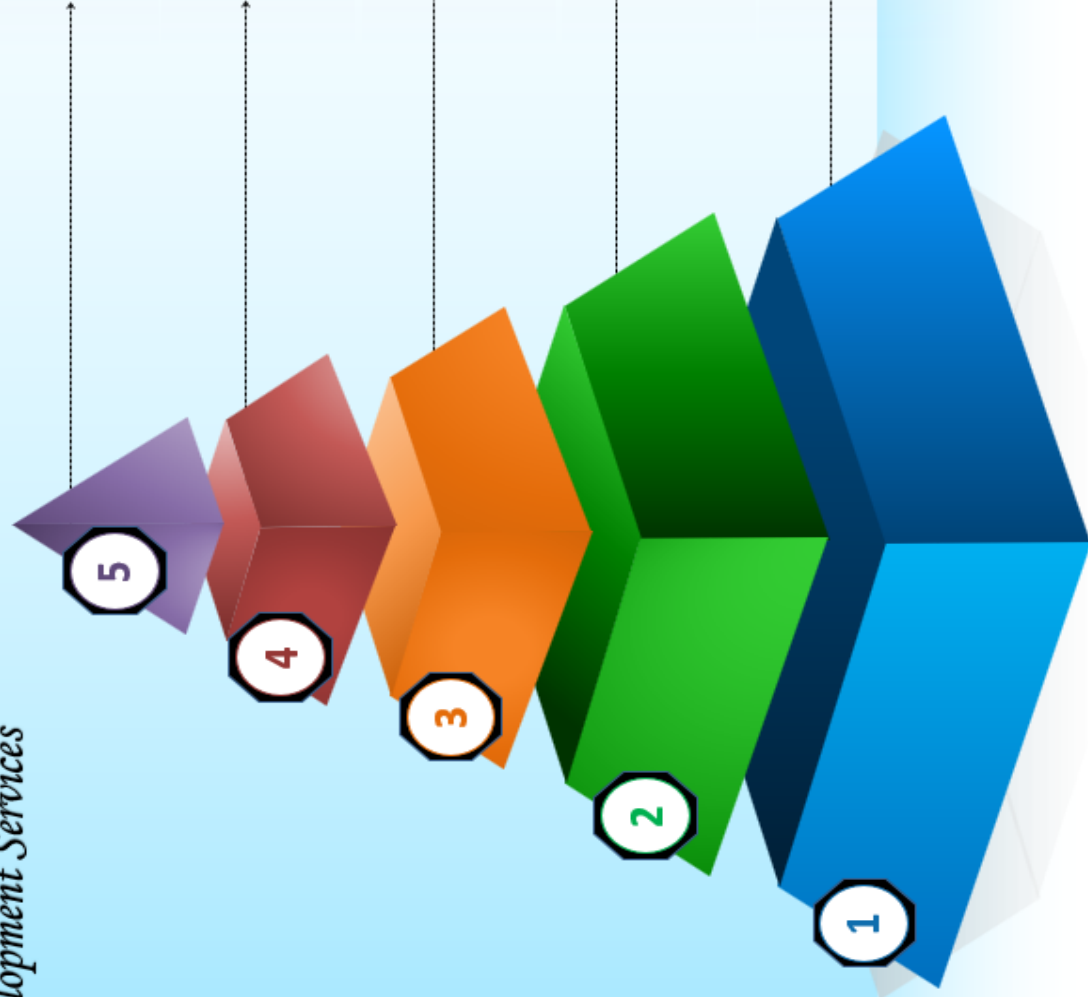


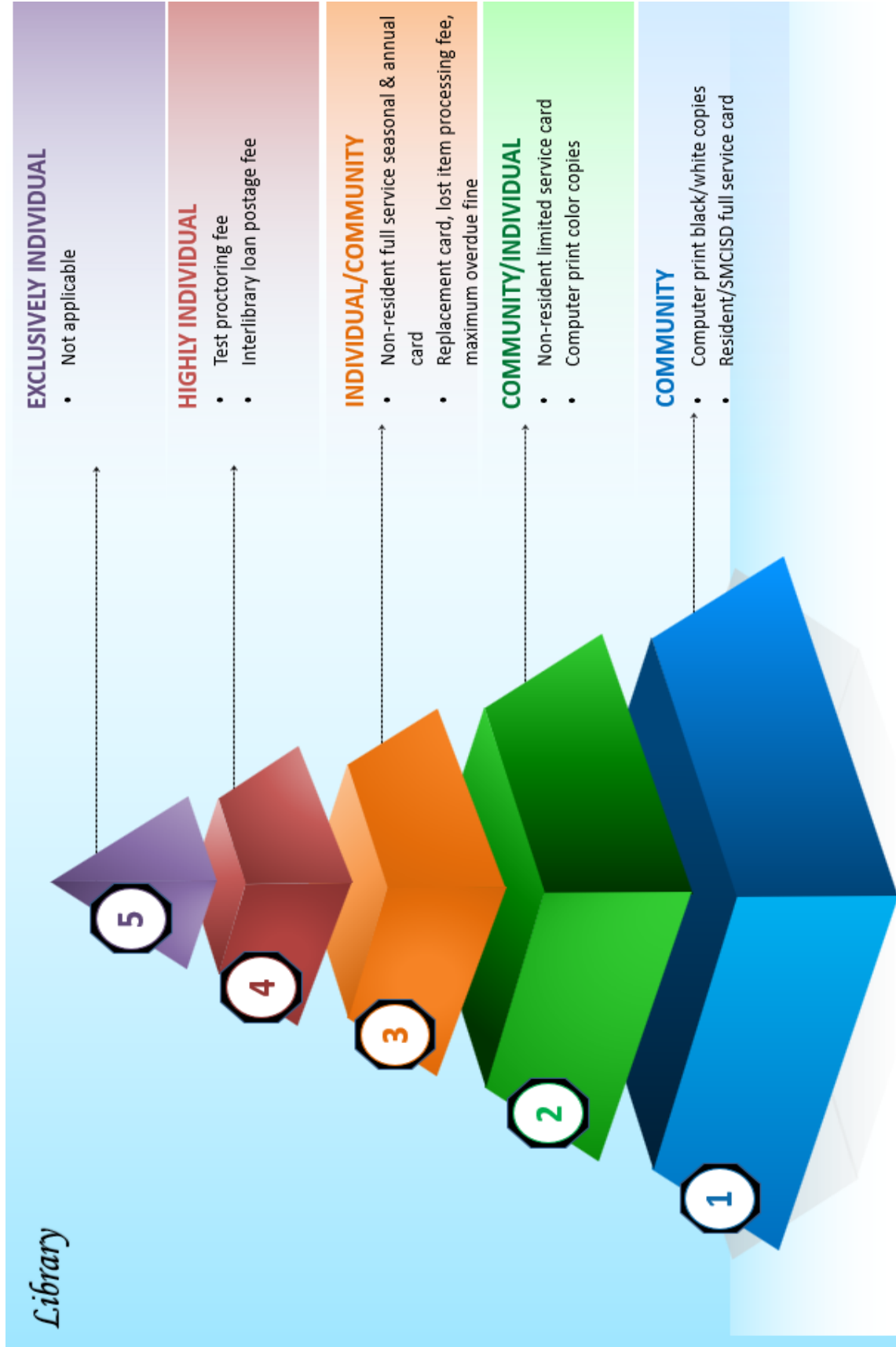
Appendix: Cost Recovery Plan – Phase I

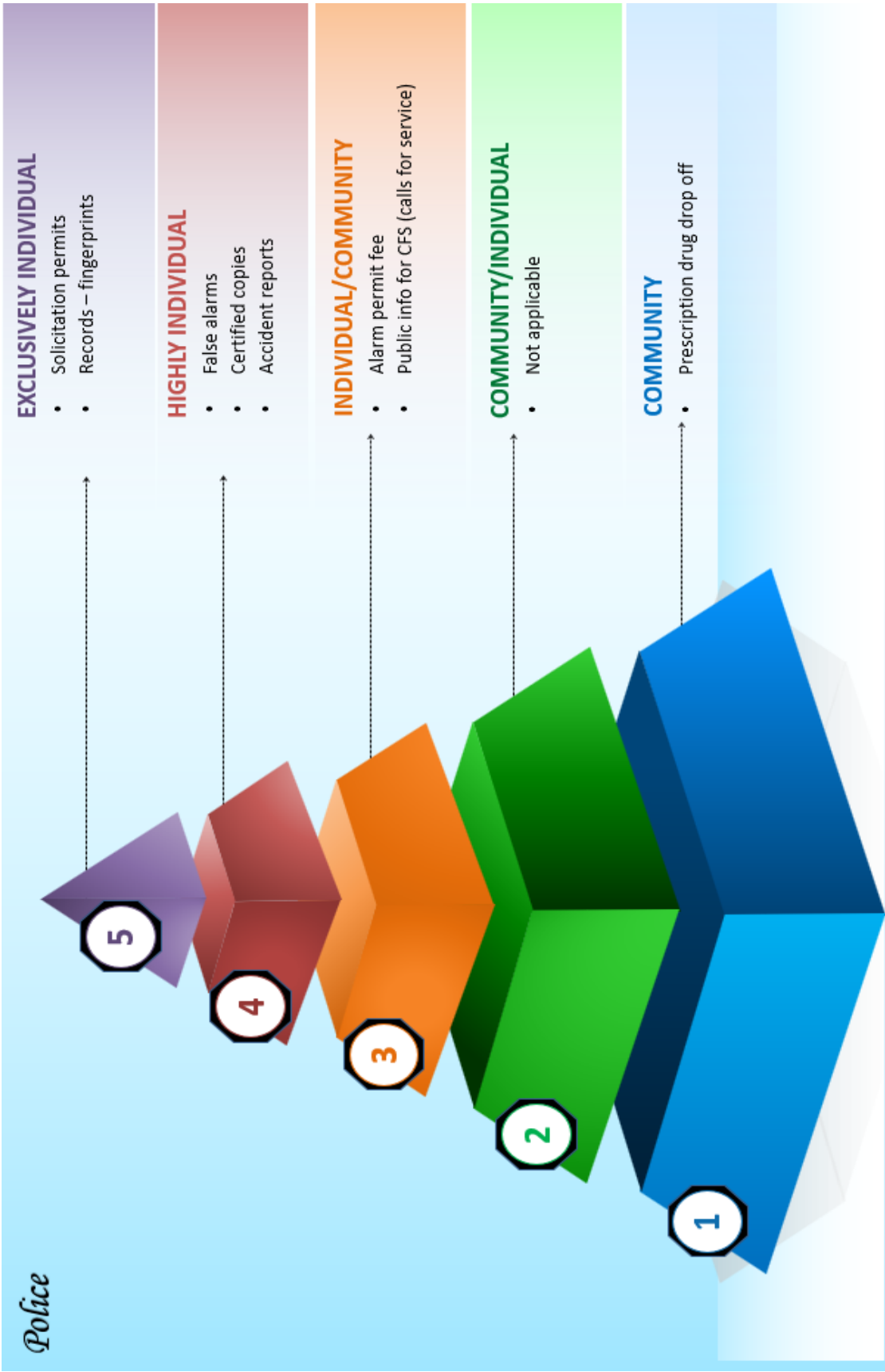
Phase I – Assign each program/service to a pyramid level defined by user benefit

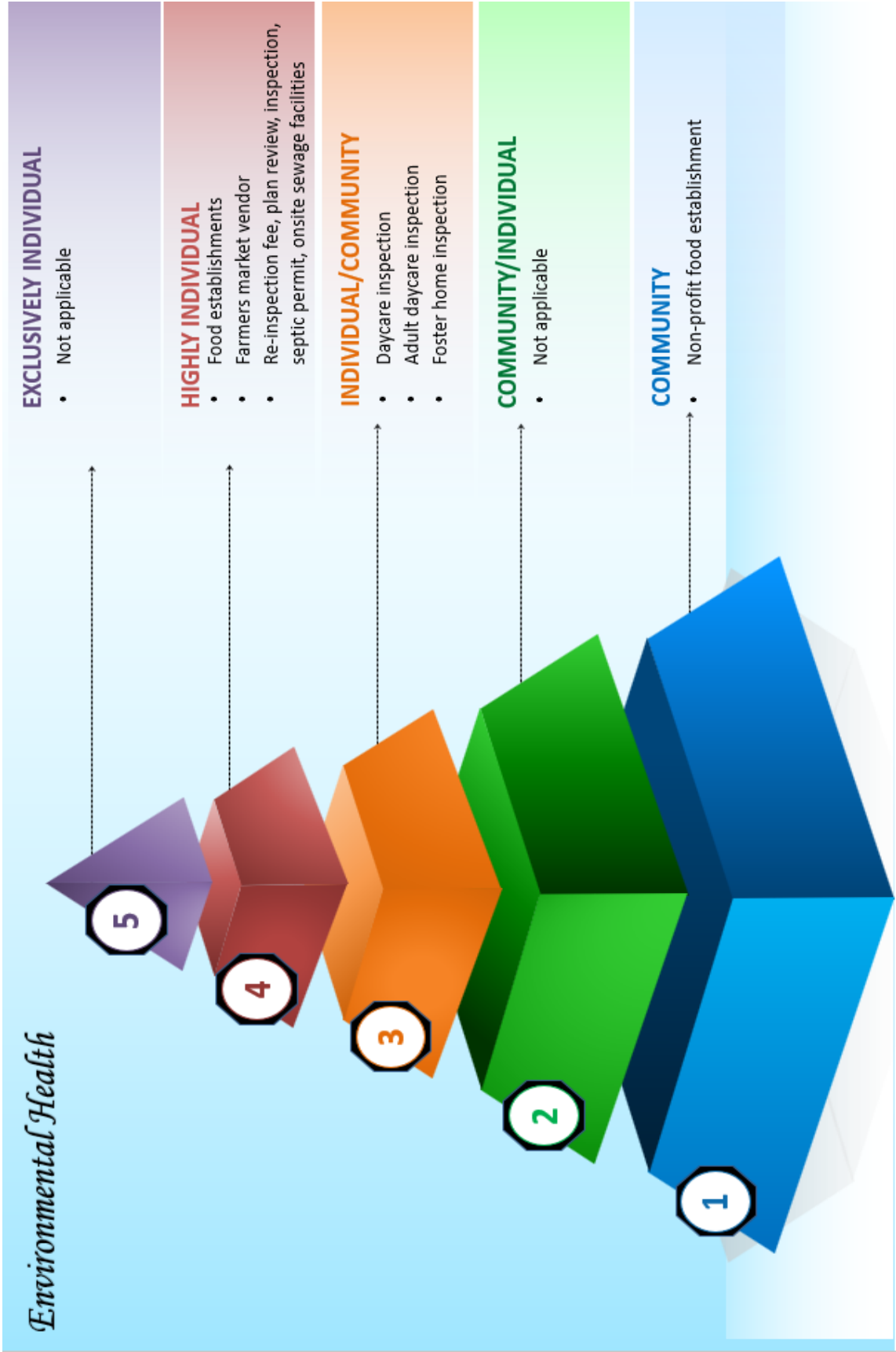


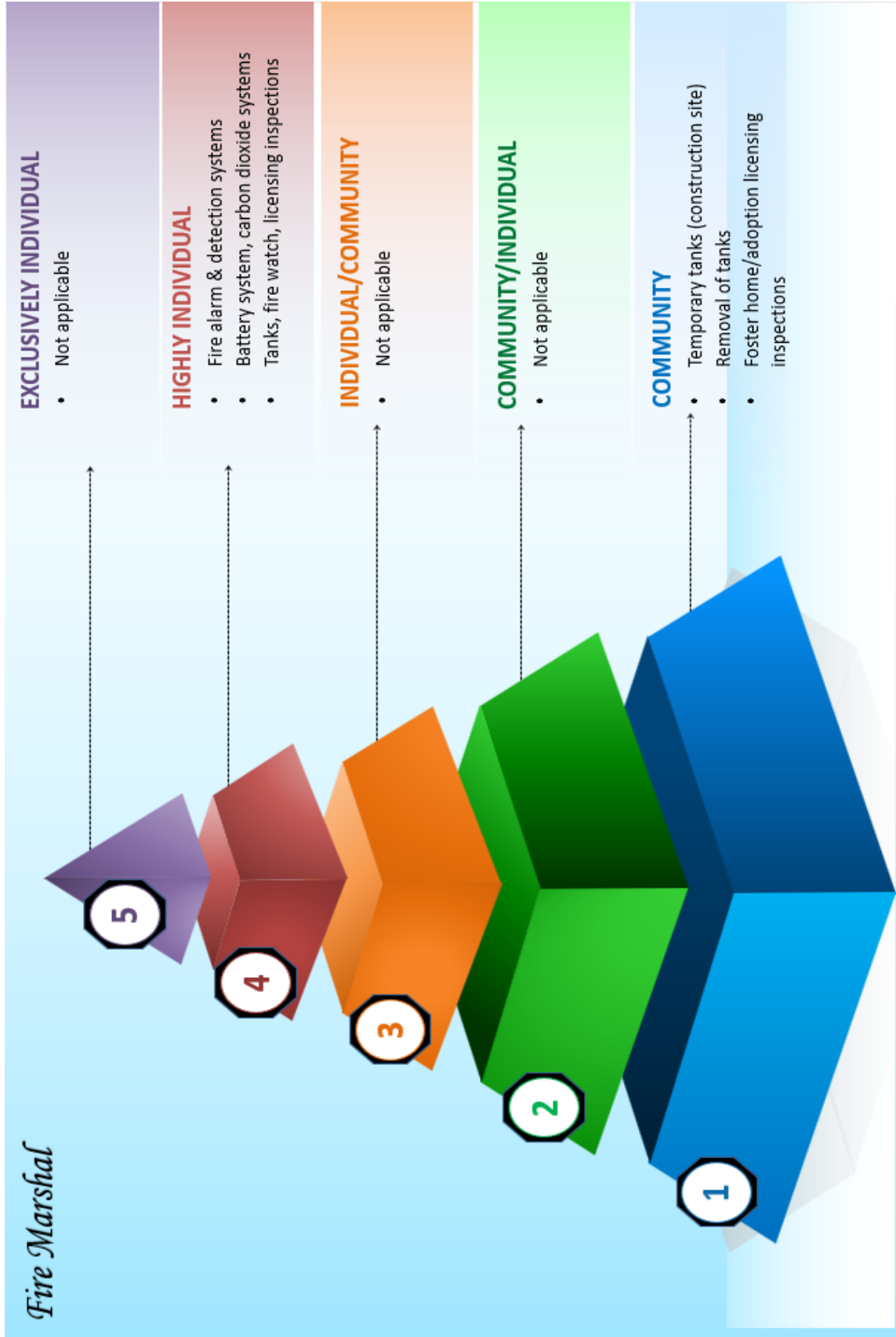
Development Services











Animal Services

