

# **Financial Policies: Cost Recovery Policy**

## **I. Purpose**

The Cost Recovery Policy (“Policy”) is a framework established to recoup the appropriate level of costs associated with providing programs and services. A sound and consistent policy serves as a management tool for establishing, implementing, and evaluating various fees and revenue options.

The Policy is designed to provide staff with consistent guidelines in pricing services, use of facilities, and establishing fees based on the balance of benefit extended to the community at-large and individual users.

It is the intent of the Policy to provide City Council with guidelines upon which to review and approve fees and cost recovery targets and to provide an appropriate level of flexibility to make decisions consistent with the City’s vision, values and desire for fiscal responsibility.

Cost recovery represents the City’s strategy to generate revenue by charging fees for some programs and services to offset the costs of providing those services. The cost recovery targets are based on various factors and establish a range from 0 to 100+ percent of total costs. Cost recovery should be applied thoughtfully, considering factors like cost effectiveness, policy consistency, and market impact.

## **II. Administration & Implementation**

The Budget and Research Department is responsible for administering this Policy. Each department providing services is responsible for implementing the cost recovery policy.

## **III. Guiding Principles**

A. The guiding principles for the creation of an effective cost recovery policy are as follows:

1. Effective and appropriate funding strategies from the General Fund, user fees, and other revenue sources should be based on categories of service and level of community versus individual benefit.
2. Impact on accessibility, fairness, and affordability should be considered when establishing fees.

B. Desired outcomes are:

1. Improved efficiency in recovery of costs associated with provision of programs, services, and facilities.
2. Balance appropriate cost recovery targets for programs, services and facilities with the desire to maintain an affordable property tax rate.
3. Reduce reliance on property taxes by substituting with fee revenue.
4. Financial sustainability by achieving established cost recovery targets.

#### **IV. Definitions**

- A. Benefit is the degree to which services impact the public (individual and community), or in other words, the results or outcomes of services.
  - 1. Community Benefit provides economic, environmental, social value; maintains or improves quality of life for the taxpaying community.
  - 2. Individual Benefit provides benefits exclusively to the user or users of the service, including, but not limited to, skill-building, entertainment, exclusive use, relationship building or financial gain.
- B. Best Practices are professional procedures that have been deemed as being correct or most effective by the respective profession/industry.
- C. Cost Recovery Model is a framework with a philosophical underpinning that guides the City's pricing for programs and services.
- D. Cost Recovery Rate is the performance metric for cost recovery, expressed as a percentage (revenue divided by expense).
- E. Cost Recovery Target is a goal set for the performance metric, such as percentage of cost recovery.
- F. Direct Cost includes all the specific, identifiable expenses (fixed and variable) associated with providing a service, program or facility. These expenses would not exist without the program or service and often increase exponentially.
- G. Indirect Cost encompasses overhead (fixed and variable) including the administrative costs of the agency. These costs would exist without any of the specific programs or facilities.
- H. Special Populations means groups of people with unique needs to which the City may target services. Examples include seniors, families, people with disabilities, and the economically disadvantaged.
- I. Tier refers to levels that provide the framework for the cost recovery model that function to define categories of activities by outcomes or benefits and target markets.
- J. Total Cost includes all costs associated with provision of services including direct and indirect costs, and consideration for the inclusion of market-based fee assessments for individual benefit or special services.
- K. User may include, but is not limited to, an individual or group of individuals, organization, business, corporation or other entity which receives an individual benefit from City services.

#### **V. Cost Recovery Model**

- A. Cost recovery, including fees, charges, and other methods to recover costs, is considered a responsible and necessary means to supplement tax revenue and provide a higher level of services that benefit the community. This policy establishes the methodologies for establishing fees and charges based on these goals, market conditions, benchmarking, demand, cost recovery targets, and industry trends.

## B. Tier of Service and Cost Recovery Targets

### 1. Primary Community Benefit

This type of benefit provides the broadest public and community benefit to the City and should be primarily funded by the City's General Fund. These include programs, services, and facilities that the City must provide to effectively govern and operate. These services are essential and provide the fundamental components of the City's health, safety and economic and community vitality.

#### a. Cost Recovery Target:

- i. Benefits: Community / Public
- ii. Cost Recovery: 0%-10%
- iii. Basis: Best Practices and Trends

### 2. Considerable Community Benefit

This type of benefit provides programs, services, and facilities that primarily provide a community benefit combined with some individual benefit. The public at-large benefits even if they may not be the direct users of the service because it enhances the overall quality of life of the community. This level provides an important public benefit and range of benefits to a user. Funding for this level is primarily by tax funds with a small offset of fees to reflect the individual benefit.

#### a. Cost Recovery Target:

- i. Benefits: Primarily Community & Limited Individual User
- ii. Cost Recovery: 11%-40%
- iii. Basis: Best Practices, Market Comparison, Direct Costs

### 3. Balanced Community & Individual Benefit

This type of benefit provides programs, services, and facilities that provide a balanced community and individual user benefit. Fees are set to recover a larger percentage of cost than those falling within lower tiers and are offset by a balanced contribution from City funds.

#### a. Cost Recovery Target:

- i. Benefits: Balanced User & Community
- ii. Cost Recovery: 41%-60%
- iii. Basis: Market Comparison, Direct Costs

### 4. Considerable Individual Benefit

This type of benefit consists of discretionary programs, services, and facilities that the City may provide when additional funding or revenue exists to offset the cost of providing those services. Such services offer an important public benefit, but primarily benefit a user and should reflect a balanced funding strategy that requires a large portion of the cost be recovered through fees.

#### a. Cost Recovery Target:

- i. Benefits: Primarily User & Some Community
- ii. Cost Recovery: 61%-90%

iii. Basis: Market Comparison, Direct & Indirect Costs

5. Primary Individual Benefit

This type of benefit primarily provides a benefit to the program or service user. Consequently, the City should fully recover the cost of providing these programs and services through fees. These programs and services provide added value to the user above and beyond what is required or expected of a municipality. Pricing for these programs, services or facility use should be established based on a consideration of cost to the City and market rate for comparable programs, services or facility use. Some of these fees may be set above 100% cost recovery if based on market rates.

a. Cost Recovery Target:

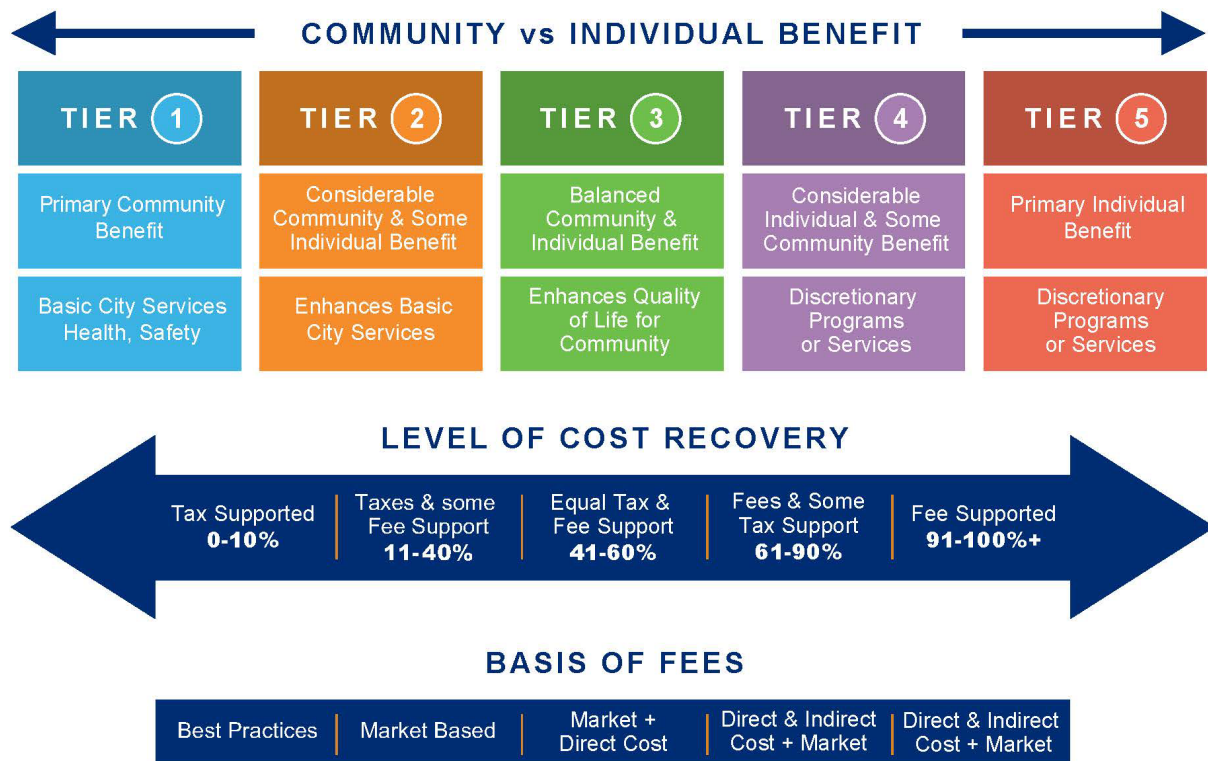
i. Benefits: User

ii. Cost Recovery: 91%-100% +

iii. Basis: Market Comparison, Direct & Indirect Costs

## Cost Recovery Model

A Cost Recovery Policy establishes a framework to recoup associated program and service costs



## VI. Cost Recovery Principles

A. The setting of the fee levels should follow these five principles:

1. Efficiency: the fees are simple and are not cumbersome to administer;

2. Effectiveness: the fees provide value for users and adequately capture the appropriate level of cost recovery;
3. Purpose & Clarity: users are clear about when and how fees apply;
4. Equity: the fees are fairly applied across a range of users; and
5. Ethics: the fees are clearly linked to the service provided and are not excessive.

## **VII. Reviewing & Establishing Fees**

- A. It is important to review and adjust fees as necessary to ensure they remain aligned with service delivery goals, cost recovery targets, market conditions, and industry trends.
- B. Once a fee is assigned to the cost recovery target and approved by Council, only in special circumstances should fees be allowed to move to a lower cost recovery target.
- C. Annual Fee Review recommendations will be completed by departments by January 1 each year to incorporate into the future fiscal year as part of the budget process.
- D. Fee adjustments may be considered outside of the budget process for significant changes in service delivery or other factors such as legislative changes.
- E. A comprehensive cost and fee analysis should occur at least every three years for Enterprise Funds and every four years for all other funds, including the General Fund. Calculation of cost of services may include:
  1. Direct costs
  2. Indirect costs
  3. General Overhead (citywide vs. department/direct service)
  4. Market based value - define when market is used and what the market includes
    - a. Organizational approach
    - b. Public sector / private sector (competition factor)
  5. Other Considerations
    - a. Resident versus Non-resident
    - b. Mandated services
    - c. Special Populations
    - d. Life-Safety services or training
    - e. Specialized services
      - i. Life-safety classes (e.g. swim, AED, CPR)
      - ii. public health or economic benefit

iii. Drives desired resident behavior (e.g. environmental)

- F. The cost recovery goal for non-residents should be at or above 100% of the service delivery cost, subject to administrative feasibility.
- G. Funds collected for retail sales and/or concessions are not considered fees for the purpose of the cost recovery policy; however, cost recovery targets should be set at Tier 5 for these funding sources.
- H. Fees and charges for City services which frequently fluctuate based on contract terms, availability of service or other factors (e.g. recreation classes, field trips, equipment rental, etc.) may be approved by the department director based on an established cost recovery target approved by council via resolution.
- I. Fees and charges for various city services will be established by Resolution unless state law requires adoption by ordinance.

## **VIII. Monitoring & Reporting**

- A. Annually, the Office of Budget and Research will provide to City leadership a detailed analysis of the full costs and revenues measured against cost recovery targets or benchmarks as it relates to the cost of services to assess operational efficiency within each cost center.
- B. Each department is responsible for providing cost recovery performance and reporting to Budget and Research department for a consolidated report to City leadership.
- C. Once cost of service and recovery targets are established, fees should be indexed to inflation (Consumer Price Index and/or Municipal Cost Index) annually unless the City Council directs otherwise based on a finding of special circumstances.