

RESOLUTION NO. 23-080

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA ESTABLISHING A CITYWIDE COST RECOVERY AND REVENUE POLICY

WHEREAS, the City provides, maintains, and operates a variety of programs and services to the public;

WHEREAS, certain sections of the state and municipal code authorize the imposition and collection of fees to defray the costs of providing certain programs and services;

WHEREAS, certain services satisfy community needs, but others solely benefit specific individuals or businesses;

WHEREAS, the City aims to set equitable and fair fees to effectively recover costs for services provided;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA THAT:

Section 1. The Council hereby determines and finds that:

a. Funds are needed to defray the cost of providing programs and services furnished by the City.


b. The funds needed to defray such operating expenses can and should be obtained by setting fees and charges for these programs and services.

c. The setting of fees and charges for these programs and services is exempt from compliance with the requirements of the California Environmental Quality Act (CEQA) under Public Resources Code Section 21080(b)(8)(1)-(4) and Title 14 of the California Administrative Code, Section 15273(a)(1)-(4).

d. Levels of cost recovery targets should take into account the full cost of each service, allowing optimum cost-recovery rates for defined services and alleviating unintended subsidization of these services from General Fund resources.

Section 2. The City of Santa Barbara establishes a Citywide revenue policy identifying cost recovery factors and concepts that should be considered to setting cost recovery target levels for each program offered by the City, attached hereto.

Section 3. The revenue policy shall be effective July 1, 2023, unless otherwise indicated.

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	COST RECOVERY & REVENUE POLICY		
	Issued by:		Date:

Purpose

The purpose of this policy is to establish a Citywide cost recovery and revenue policy by identifying cost recovery factors and concepts that should be considered for setting cost recovery target levels for each program offered by the City. This Policy allows the City services users, staff, and general taxpayers to better understand the philosophy behind pricing of a program or service. The policy is based on the cost recovery goal for the service established by the City to provide the service and whether the service is a public, public and individual, or primarily an individual benefit service.

Background

The City of Santa Barbara is simultaneously accountable for maintaining a sustainable budget that benefits the overall community and one that also responds to the interests of the individuals who live here. While the primary mission of government is to satisfy community needs, many City services solely benefit specific individuals or businesses. It is the intention of this policy to establish cost recovery levels so that the public at large is not subsidizing activities that benefit individual recipients through general tax revenues. The foundation of effective cost recovery is a well-conceived, regularly reviewed policy. Such a policy provides a guideline for setting equitable fees given the full cost of each service, allowing optimum cost-recovery rates for defined services, and alleviating unintended subsidization of these services from General Fund resources.

A cost recovery policy provides guidelines for setting fees given the full cost of service. It does not bind policymakers to increasing or decreasing fees but does provide rationale for doing so. The lower fees are set, relative to full cost recovery, the more General Fund and/or Enterprise Fund dollars are required to maintain the service. This additional support must then be weighed against the other needs for resources, including needs which may not have similar cost recovery options.

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 direct costs.

Principles, Definitions, & Criteria:

The guiding principles for the creation of an effective pricing policy are as follows:

- Accessibility, Fairness, and Affordability based on the category of service and benefit level.
- Effective and appropriate funding strategies from City Funds, user fees, and other sources.
- Improved efficiency in the cost of providing programs, services, and facilities.
- Financial sustainability by achieving established cost recovery targets.



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DEFINITION OF TERMS:

Public Services are services the City offers that provide all users the same level of opportunity to access the service. The level of benefit is the same to all users. Public Services normally have low or no user fees associated with their consumption. The cost for providing these services is borne by the General Fund. These services are categorized as Tier 1: Mostly Community Benefit.

Public and Individual Benefit Services are services whereby the user receives a higher level of benefit than the general taxpayer. The taxpayer benefits as a whole because the service provides a more livable community and the service has a good public benefit as well. Public and Individual Services can be priced using either a partial overhead pricing strategy or a variable cost pricing strategy. Partial overhead pricing strategies recover all direct operating costs and some determined portion of fixed indirect costs. Variable cost pricing strategies recover a determined portion of the fixed direct costs by adding a markup to the variable costs. The expectation is that the markup will contribute to meeting all or a part of fixed direct costs and generate some level of indirect cost recovery. The portion of fixed indirect costs not recovered by the price established represents the subsidy. Whatever the level of subsidy, staff needs to inform the users by letting them know that the City is investing a certain dollar amount and/or what percentage level of investment they are making in their experience. These services are categorized as Tier 2: Individual and Community Benefit.

Individual Benefit Services are services where only the user benefits. For these services, the City should implement a pricing strategy to achieve full cost recovery. The price of this service is intended to recover all direct and indirect costs associated with providing the service. These services are categorized as Tier 3: Mostly Individual Benefit.

Direct Expenses are City costs associated with staff, materials and supplies, and other resources associated with providing the program, service, or operating the facility. Direct expenses also include the proportional cost of the program or facility supervisor, coordinator, or administrative personnel based on the time required to plan, organize, and direct the operation of that program, service, or facility.

Indirect Expenses are the cost of the City Departments to provide the program or facility. Indirect expenses include Department Administration, marketing, information technology, and facility or maintenance staff. Indirect expenses also include City wide functionalities such as Human Resources, Information Technology, Fleet, Facilities, Finance, City Administrator, and City Attorney time associated with supporting the operation of the program or facility, among other expenses.

Cost Recovery Percentage outlined in this Policy is based on Direct Expenses only and does not include Indirect Expenses. It is generally recommended that an additional 5%-10% be added to the fees established for Tier 1 and 2 programs, services, and facilities, and 0%-5% for Tier 1 programs, services, and facilities, to attempt to offset some portion of the Indirect Expenses associated with providing those activities.



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The Three Tier Model for Cost Recovery

Tier 1: Mostly Community Benefit (0%-20% Cost Recovery)

Mostly community benefit services are those programs, services, and facilities that the City of Santa Barbara must provide and/or are essential in order to capably govern the municipality and operate. The failure to provide a core service at an adequate level would result in a significant negative consequence relative to the City's health and safety and economic and community vitality. The criteria for a core service are:

- City of Santa Barbara is mandated by law or is contractually obligated by agreement to provide the service.
- The service is essential to protecting and supporting the public's health and safety.
- The service protects and maintains valuable City assets and infrastructure.
- The City's residents, business customers, and partners would generally and reasonably expect and support the City in providing the service, and that service is one that cannot or should not be provided by the private sector, and provides a sound investment of public funds.

Examples of City functions that are considered mostly community benefit include stewardship of public spaces and facilities including parks, libraries and roads; public safety services such as police, fire, and lifeguard services; elections, City Council material distribution, Boards and Commissions, filings, and public records management.

Tier 2: Individual and Community Benefit (20%-80% Cost Recovery)

Individual and community benefit services are those programs, services, and facilities the City should provide, and are important to governing the municipality and effectively serving its residents, businesses, customers, and partners. These services expand or enhance the ability to provide and sustain the City's Tier 1 services, and enhance the overall quality of life for residents and visitors as well as support economic and community vitality. The criteria for Tier 2 services are:

- Service provides, expands, enhances, or supports identified Tier 1 services.
- Services are broadly supported and utilized by the community, and are considered an appropriate, important, and valuable public good. Public support may be conditional upon how the service is paid for or funded.
- Service generates income or revenue that offsets some or all of its operating cost and/or is deemed to provide an economic, social, or environmental outcome or result within the community.



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Examples of Tier 2 Services include programs and activities that benefit the community at large even if they are not the direct users of the service, through addressing social needs, public safety, or community connections; activities targeting underserved populations; services which promote healthy activities and educational enrichment to the community, such as field rentals, after-school programs, and camps, permits which support safe buildings such as water heater installation permits, hazardous materials fees, fire permit/safety inspection/safety plan check fees, and animal/vehicle impounding.

Tier 3: Mostly Individual Benefit (80%-100% Cost Recovery)

Tier 3 services are discretionary programs, services, and facilities that the City may provide when additional funding or revenue exists to offset the cost of providing those services. These programs and services provide added value to the residents, businesses, customers, and partners above and beyond what is required or expected of a municipality. The criteria for added value services are:

- Individual users or participants receive most or all of the benefit of the service.
- Other private or public sector alternatives provide the service.
- The service benefits commercial uses and activities.
- The use of the service is specifically discouraged.
- The service benefits commercial uses/activities.

Examples of Value-Added Services include private sport lessons, facility rentals for private events.

Additional Details Related to Principles, Definitions & Criteria:

ACCESSIBILITY, FAIRNESS AND AFFORDABILITY

This Policy supports equity and fairness because it requires those who personally benefit from a program or service above what the general taxpayer receives to pay for that added benefit. Affordability should be based on both the level of benefit and ability to pay. For example, the City should not subsidize programs with tax support solely based on the age of the user. The type of service and benefit received will directly determine the cost recovery level or pricing strategy to be used in the pricing of the services and products.

EFFECTIVE AND APPROPRIATE FUNDING STRATEGIES

Supplemental funding assists in the overall funding of the City's operations. The revenue produced through supplemental funding provides the City the needed revenue for operations, capital costs, and marketing to promote programs and services available to the community. These dollars can come from any source that supports operations and include grants, sponsorships, partnerships, and donations. The City should identify supplemental funding opportunities whenever possible and where appropriate.



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IMPROVED EFFICIENCY IN THE COST OF PROVIDING PROGRAMS, SERVICES AND FACILITIES

City staff can evaluate how the service is delivered and if it is delivered in the most effective and efficient manner, based on the cost to deliver the service. Priorities to enhance user or visitor experiences are clearly defined, because the services provided are made visible and the priorities are established based on the direct user costs that are associated with the activities that users want. Pricing City services correctly can achieve these positive results:

1. Reduces overcrowding of programs and facilities, which enhances supervision and improves visitor experience.
2. Indicates user and visitor demand and support for the service.
3. Increases positive user and visitor feedback.
4. Provides encouragement to the private sector to partner with Departmental programs through contracts that can bring greater revenue to the City.
5. Ensures stronger accountability on staff and management of the service.
6. Creates program choices for those who want a higher level of quality or individual attention. (i.e., private lessons versus group lessons) through differential pricing.

FINANCIAL SUSTAINABILITY BY ACHIEVING ESTABLISHED COST RECOVERY TARGETS

Financial sustainability by achieving established cost recovery targets means dollars generated from each activity are redistributed back to the area they came from to pay direct and indirect costs in some situations, and for future improvements associated with a facility or activity. The staff will document the cost of services provided through a costing model. The true cost of each activity is designated as direct and indirect costs associated with providing a product or service. An annual review of all prices is recommended to document the changes that have occurred within the products or services provided by City. This will help staff to evaluate which program, product, or service should have adjustments based on the Policy.

City of Santa Barbara City Council and staff will set prices for services based on the following assessment:

- What is the cost to provide the service and what is the unit cost per registered participant or attendance at the program or facility?
- Which tier best fits the program or service based on the criteria established and the level of cost recovery and subsidy?

ESTABLISH PRICING/COST RECOVERY CRITERIA



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- Does this program/service align with the Departmental Vision and Mission?
- The program/service meets at least one of the City's strategic directions.
- The program has a strong social value that is supportive of an identified strategic direction.
- The program, service, or facility is capable of achieving its established cost recovery target.
- The program has strong economic appeal and creates a positive return on investment.
- The program has a high partnering capability to expand or enhance service and/or offset operational costs.
- The program/service currently meets the capacity performance measures developed by staff.
- What classification of Benefit Level does it fall under (Public, Public and Individual, or Individual)?
- What is the true cost to provide the service and current level of subsidy?
- What is the current price of the service and what level of cost recovery does it support now? What pricing alternatives are currently being used?

PRICING METHODOLOGIES

Pricing programs, services, and use of facilities should be based on a consideration of both direct and indirect cost to City of Santa Barbara as well as the "market-based value" of the service. Pricing should be evaluated annually, and comparison rates should be considered during that process as needed. Flexibility is needed to maximize Department revenues and to respond to changing market conditions such as demand versus capacity, weather, changes to the cost of providing the service, and/or additions or changes to existing programs.

Pricing Options to consider:

- Differential between resident and non-resident rates
- Prime time/non-prime time rates
- Group or Volume Discount rates
- In season/off season rates
- Increase the minimum numbers required to hold the program (low cost-high volume approach) to spread cost to more people while keeping price the same
- Reduce the staffing or material cost or length of a program/service to keep existing price
- Change the City/Contractor percentage split to increase revenue to the City

NON-RESIDENT FEE DIFFERENTIAL

Some City of Santa Barbara services are open to residents of neighboring communities. Non-residents may pay some sales taxes in the City, but their contributions towards the City's General Fund are not equivalent to residents as they do not pay local property taxes. In recognition of this disparity, the



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City adds a non-resident surcharge to some user fees. The rate of surcharge varies and takes into consideration the following factors:

- The demand from City residents for the program;
- The supply/availability of program openings;
- The degree of subsidy from the taxpayer for the particular program;
- The demand from non-residents for the program;
- The viability of the program without non-resident participation; and
- Recovery goals.

There are a number of program areas that the City does not assess a non-resident surcharge. For example, the City does not charge a non-resident surcharge at the golf course as this program is fully supported by its own fees and does not receive taxpayer support. This pricing method is communicated as a resident discount rather than a non-resident surcharge.

FEE CHANGES

On an annual basis, coordinated with the City's budget process, department staff will propose changes to existing fees, new fees, and deleting obsolete fees in line with this policy. The proposed fee changes will be presented to the Finance Committee for initial consideration. Proposed fee changes will also be presented to the City Council as part of the budget review process and adopted along with the annual budget.

Fee changes may be considered as part of a fee study as well as being annually adjusted based on a commonly used index for a specific type of fee or service, such as a consumer price index (CPI) inflationary assumption.

Fee changes can be considered outside of the annual budget review process as necessary and coordinated with the Finance Director and City Administrator.

EXCEPTIONS TO THIS POLICY

There may be times when the highest rate a market will bear for a particular fee is not within range of the target cost recovery level group for the type of activity. In instances where the market rate is below the target cost recovery, Department management should assess whether the program should be continued and/or modified to reduce costs or increase participation. There may also be situations where the market rate exceeds the target cost recovery level. In those cases, management should assess whether setting fees at market rate will adversely affect participation from the target audience and if not, may set fees above the target cost recovery level.

RESOLUTION NO. 23-080

STATE OF CALIFORNIA)
)
COUNTY OF SANTA BARBARA) ss.
)
CITY OF SANTA BARBARA)

I HEREBY CERTIFY that the foregoing resolution was adopted by the Council of the City of Santa Barbara at a meeting held on June 13, 2023, by the following roll call vote:

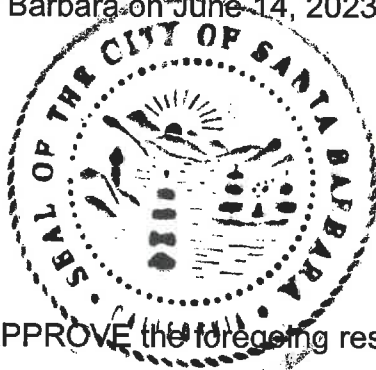
AYES: Councilmembers Eric Friedman, Alejandra Gutierrez, Oscar Gutierrez, Meagan Harmon, Mike Jordan, Mayor Randy Rowse


NOES: Councilmember Kristen W. Sneddon

ABSENT: None

ABSTENTIONS: None


IN WITNESS WHEREOF, I have hereto set my hand and affixed the official seal of the City of Santa Barbara on June 14, 2023.





Sarah Gorman, MMC
City Clerk Services Manager

I HEREBY APPROVE the foregoing resolution on June 14, 2023.



Randy Rowse
Mayor

