



# Taking a Policy-Based Approach to Setting Fees



**William C. Statler**

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

# Background

---

- The power of policies in achieving fiscal success and sustainability

# Keys to Fiscal Success and Sustainability

---

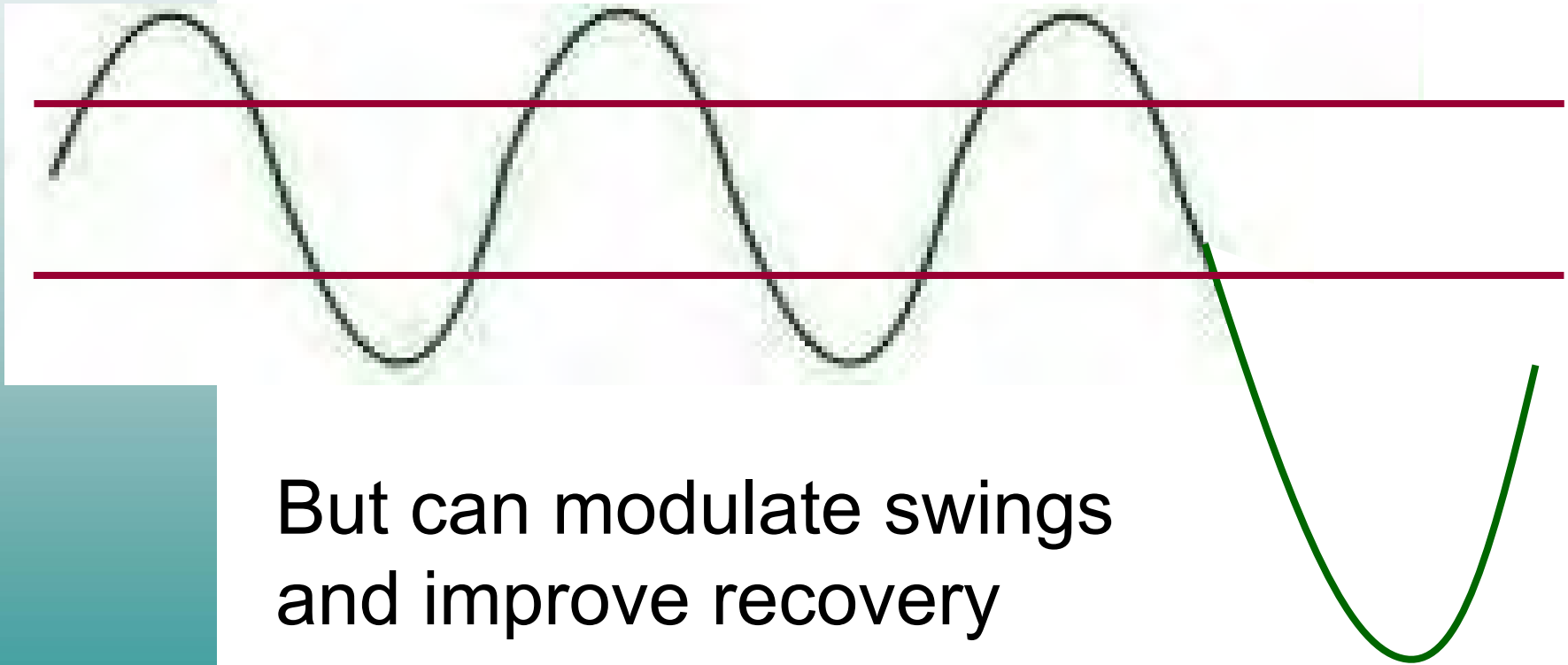
- Financial Management Skills
  - Fiscal Policies
  - Financial Planning
  - Financial Reporting
- And an essential fourth “soft skill”
  - Public engagement and trust

**With trust, anything is possible.  
Without it, nothing is.**

*- Ken Hampian, Retired SLO City Manager*

# No Immunity from Business Cycles

---



But can modulate swings  
and improve recovery

# GFOA on Fiscal Sustainability



<http://gfoa.org/financial-sustainability>

# Fiscal Sustainability

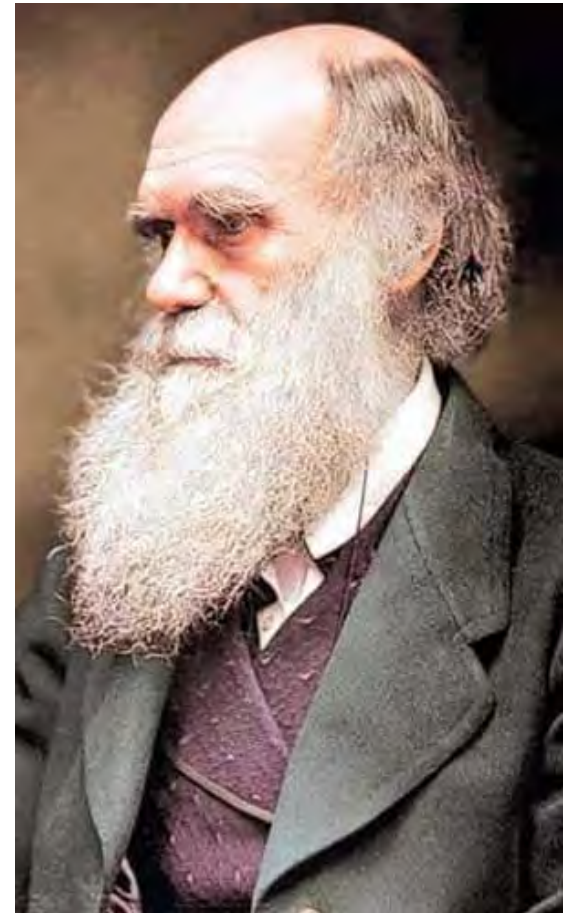
---

- This is a journey, not a destination
  - While plans and policies are key elements for success, flexibility and adaptability are our reliable friends on this journey.
  - “Change-able” organizations will have the smoothest (although most likely still bumpy) ride.

# The New Normal: Responding to Change

---

- *It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change.*
  - Charles Darwin



# The Power of Policies

---



- Good times come and go.
- But your values shouldn't.
  - And that's what fiscal policies are all about.

# Plans and Policies

**“Plans are nothing.  
Planning is everything.”**

*Dwight D. Eisenhower*

- Plans are good.
  - General Plans (and Elements)
  - Facility Master Plans (Pavement, Parks, Bicycles, Water, Sewer)
  - Long-Term Forecasts
  - Multi-Year Budgets
    - ❖ Operating and CIP
- Policies are better.

# Fiscal Health



- ... is a lot like your personal health — it's not what you live for . . . . but it's hard to enjoy your life without it.
- And like personal health, fiscal health is rarely luck.

# Fiscal Policies



- The best way to ensure your long-term fiscal health.
  - Local economy important
    - ❖ And no one is immune from economic downturns.
  - But not the most critical feature . . . financial management counts!
    - ❖ Just Think: Orange County
- Important in both good times and bad

# When do fiscal challenges arise?

---

- Roots of fiscal adversity for most governments take hold in the good times, by making commitments that are not sustainable
- Rarely in the bad times, when most agencies act on the “First Rule of Holes”
  - When you find yourself in one, stop digging.

# Both Preventative and Curative

---

- Clearly articulated policies help prevent problems from arising in the good times.
- And help respond to bad times when they do occur.

# Take on momentum of their own

---

- What's the most frequent answer to the question: "Why do we do it this way?"
- Provide continuity as elected officials and staff change.
- Most powerful when it put in place before the need for them arrives.

# An Example of the Power of Policies

## *Fund Balance Survey: 1996*

City	Policy?	If Yes, Description	Actual
Arroyo Grande	No		1%
Atascadero	No		1%
Grover Beach	Yes	20% of operating	20%
Morro Bay	Yes	27.5% of operating	15%
Paso Robles	Yes	15% of operating	13%
Pismo Beach	No		-14%
San Luis Obispo	Yes	20% of operating	21%

# Situation Ten Years Later

*Based on Adopted 2006-07 Budget*

City	Policy?	If Yes, Description	Actual
Arroyo Grande	Yes	20% of Operating	20%
Atascadero *	Yes	Narrative Assessment	44%
Grover Beach	Yes	20% of Operating	23%
Morro Bay	Yes	27.5% of Operating	14%
Paso Robles	Yes	15% of Operating	39%
Pismo Beach	Yes	15% of Operating	15%
San Luis Obispo	Yes	20% of Operating	21%

\* *Actual Shown as Percent of Operating Budget*

# Plans Versus Policies

---

- Plans change over time as actual results replace assumptions (like, as soon as the laser jet ink is dry).
- But policies:
  - Are your “north star” guiding preparation of plans.
  - Help making tough decisions easier by telling you what your values are before they are put placed under stress by adverse circumstances.
  - You might actually do something else, but they are a powerful starting point:
    - ❖ *But for “this,” I would do . . . what?*

# User Fee Cost Recovery

---

- Why is this important?
  - Proposition 218 made sweeping changes in the way that cities manage and control their revenues.
  - New standards for voter or property owner approval of
    - ❖ Assessments.
    - ❖ Taxes.
    - ❖ And many (but not all) fees.

# Required Approval: New or Increased Revenues

	Council	Voters	
		Majority	Two-Thirds
Sales Tax (Use Tax)		General Purpose	Special Purpose
Transient Occupancy Tax		General Purpose	Special Purpose
Property Transfer Tax (Charter Only)		General Purpose	Special Purpose
Business Tax		General Purpose	Special Purpose
Utility Users Tax		General Purpose	Special Purpose
Admissions Tax		General Purpose	Special Purpose
Parking Tax		General Purpose	Special Purpose
Excise Tax		General Purpose	Special Purpose
Parcel Tax			x
General Obligation Bond			x
Maintenance Assessments		x	
Mello-Roos: Existing Development			x
Mello-Roos: New Development	**		
Use of Property/Assets	x		
Franchise Fees	x		
Donations/Partnerships	x		
Fines	x		
Development Impact Fees	x		
Higher Cost Recovery	x		

# So, take a close look



- One of the few remaining areas for local elected official judgment.
  - And if there are areas where user fees should appropriately fund service costs – but they aren't – then general-purpose revenues are being used instead.

# User Fee Cost Recovery

---

## ■ Key Policy Questions

- What does it cost the agency to provide various services?
- Are these costs reasonable?
- What are current cost recovery levels?
- What should the cost recovery level be?
- What fee changes are necessary to implement the agency's cost recovery policies?

# Ultimately, A Policy Question

## *Not a cost accounting one*

---

- If services fees are not assessed where they legitimately could be, then general purpose revenues are making-up the difference.
- The direct consequence of this is lower levels of service (and in tough times, deeper cuts) in essential programs that have no significant user fee potential, such as police, fire, streets, libraries and parks.

# Taxes vs Fees in Funding Services

---

- Community-wide vs special benefit.
- Service recipient vs service driver.
- Effect of pricing on services.
- Feasibility of collection and recovery.

# General Concepts

---

- Revenues should not exceed cost.
- Fees based on total cost: direct, indirect, use of facilities.
- Simple assessments and collections.
- Rates sensitive to “market” and smaller, infrequent users.
- Unified, consistent approach.
- Ongoing updates.

# High vs Low Cost Recovery

---

## ■ Low Cost Recovery

- No intended relationship between payment and benefit
- Collecting fees not practical
- No intent to limit use
- Non-recurring, “peak-demand” service
- Encourage compliance

## ■ High Cost Recovery

- Similar to private sector services
- Other service options in-place
- Want a relationship between cost and use (demand management)
- Discourage use
- Recover high regulatory costs

# Low Cost Recovery Services

---

- Delivering public safety emergency response services.
- Maintaining and developing public facilities that are provided on a uniform community-wide basis such as streets and parks.
- Providing social service and economic development programs.

*These are what “taxes” pay for.*

# Recreation Programs

---

- Directed to adults: relatively high.
- Directed to youth and seniors: relatively low.
- Similar to private sector services: relatively high.

# Development Review

---

- Generally 100% for planning, building & safety, engineering and fire
- Notable exceptions
  - Appeal fees
  - Low and moderate income housing

# Comparability with Other Communities

---

- Should generally play small role in setting City fees:
  - What is their cost recovery goal?
  - What costs are considered?
  - When did they last look at fees?
  - What is their service level?
  - What is their rate structure?

# Developing the benchmark group

---

- No agency is just like you ... so what makes you unique?
  - Form of government
  - Population size
  - Demographics: age, income
  - Geography and weather
  - Economy
  - Community characteristics: Central City? Suburb? Rural?
  - Scope of services delivered

# State of California Resources



## ■ Demographic Research Unit

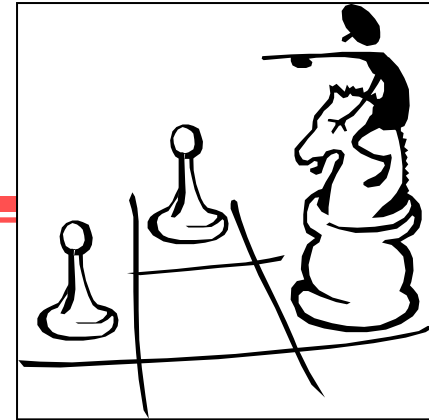
- <http://www.dof.ca.gov/research/demographic/Estimates>

## ■ State Controller's Reports

- [http://www.sco.ca.gov/ard\\_locrep\\_annual\\_financial.html](http://www.sco.ca.gov/ard_locrep_annual_financial.html)



# Related Issues



- Ongoing Updates:  
What's Your Strategy?
  - San Luis Obispo prepares comprehensive “cost of services study” every five years, with automatic CPI adjustments in the interim.
- Indirect Cost Allocation Plan
  - Just because they are “indirect” doesn't mean they aren't real.

# Timing Is Everything



- When do you set policies and do fee studies?
  - Policies: Before fee study or as part of it?
  - Fee Studies:
    - ❖ Outside of the budget process, where they can be “dispassionately” viewed on their own philosophical merits?
    - ❖ Integral part of the budget process, so that the resource trade-offs between setting user fees at an appropriate level versus the ability to fund high-priority initiatives are clear?

*This message may be easier to communicate when the real-world benefits are clear and compelling.*

# Policy Versus Actual

---

- Set policies based on where you want to be – which may not be where you are today.
  - Clearly stating where your agency wants to be (versus where it may be today) significantly enhances your ability to get there.
- Consider following each policy with a brief “compliance status”
  - In compliance
  - In progress: what’s the plan for getting there?

# City of Bell Example

---

- Based on GFOA structured methodology, recommended minimum General Fund “unassigned” fund balance of 25% of operating expenditures
  - 12% at the time

# Restoration Policy

---

- Restore to policy level within 5 years
- As revenues improve, 50/50 split between services and reserve restoration

# Summary

---



## ■ Policies Are Powerful

- Fundamental foundation for long-term fiscal health: underlying basis for case-by-case decision-making.
- Articulates your values before they are under stress.
- Provides context for what you would “but for” – should be roadmaps, not straight jackets.
- Key factor in staying out of fiscal trouble and then responding when you are.