



# Budget Engagement Commission

*City of Arts & Innovation*

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**TO: HONORABLE COMMISSIONERS** **DATE: NOVEMBER 18, 2021**  
**FROM: FINANCE DEPARTMENT** **WARDS: ALL**  
**SUBJECT: CITYWIDE USER FEES AND CHARGES STUDY**

## **ISSUE:**

That the Budget Engagement Commission receive information on a comprehensive user fees and charges study.

## **RECOMMENDATIONS:**

That the Budget Engagement Commission receive and provide feedback on a comprehensive user fees and charges study.

## **BACKGROUND:**

Fees are appropriate when a specific government service or activity provides specific benefits to a person or entity. Article XIII C of the California Constitution, Section 1(e)(2) defines these fees as follows: "A charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product."

The City charges fees for certain services rendered and categorized according to Riverside Municipal Code (RMC) Chapter 3.30 – Fee and Service Charge Revenue/Cost Comparison System. Section 3.30.010 states:

- A. It is the intent of the City Council to require the ascertainment and recovery of costs reasonably borne from fees, charges and regulatory license fees levied therefor in providing the regulations, products or services hereinafter enumerated in this chapter.
- B. The fees and service charge revenue/cost comparison procedures set forth herein provide a mechanism for ensuring that fees adopted by the City for services rendered do not exceed the reasonable estimated cost for providing the services for which the fees are charged.

Ideally, fee studies are performed every 3-5 years to evaluate whether the fee structure is keeping up with the rising costs of providing a service. The City's most recent fee study concluded in 2016.

In February 2021, the City issued a Request for Proposals to conduct a citywide user fees and charges study. Three proposals were received. Following a scoring and interview process in alignment with the City's purchasing resolution, a Professional Consultant Services Agreement was executed with MGT Consulting, LLC in March 2021.

## **DISCUSSION:**

### **Why are fees charged and how is the fee amount set?**

A fee for service is generally charged when the cost and benefit of a service can be attributed to a specific user. The fee is based upon the cost of providing the service but may be set at less than full cost recovery. General government revenues (e.g., taxes) subsidize the cost of providing a service if the rate is set at a level less than the cost to provide the service. In some cases, such as for the Library and the Parks, Recreation and Community Services department, services provide broad public benefits and improve the quality of life and thus may be set below the cost of recovery. Other services, particularly development-related fees, provide primary benefit to those seeking the services and may be set to close or full cost recovery.

### **What does a fee study entail?**

A user fees and charges study identify the full cost of providing a service, including labor, materials, and overhead costs. Staff then consider several factors when formulating recommendations as to the cost-recovery level for a fee, including:

- The delta between the current fee and a 100% cost-recovery fee.
- The purpose of the fee and the users benefitting from the fee.
  - Who does the fee benefit?
  - Does the fee present a disproportionate impact among the users that are benefitting or would benefit from the service?
- The appropriateness of a fee subsidy from general government revenues, such as taxes.
- Comprehensive community engagement

A fee study also includes a comparative survey in which the City obtains data on similar fees charged by other government agencies. The City has selected the following cities for the comparison study based on their similarity of operations, demographics, size, and urban development:

- |                       |                 |
|-----------------------|-----------------|
| • Anaheim             | • Long Beach    |
| • Corona              | • Moreno Valley |
| • County of Riverside | • Pasadena      |

### **Status of Fee Study**

As of the filing date of this report, the status of the fee study is as follows:

- The cost of service for existing user fees and current cost recovery level has been identified and documented.
- Staff's recommendations for new fees and the related cost of the service provided have been documented.
- Staff's preliminary recommendations for revised fee levels for all proposed fees (existing and new) have been documented, with consideration of potential disproportionate impacts of fees and the City's strategic priorities. (The recommendations will be updated following comprehensive community engagement.)

- The comparative survey for selected fees is underway.
- Staff is developing a comprehensive community engagement strategy.

### Next Steps

Following the compilation of staff recommendations and the results of the comparative survey, staff will begin a comprehensive community engagement process. Community feedback will contribute to the refinement of fee recommendations and identification of strategies that might be employed to offset any disproportionate effects of fee recommendations on disadvantaged populations. Staff will then bring the fee recommendation to applicable boards and committees for additional feedback. Fee recommendations are expected to be presented to the City Council in May 2022 for final adoption in June 2022.

Due to the timing of the study, any potential revenue increase resulting from fee revisions is not expected to be incorporated into the FY 2022-2024 Biennial Budget, which is also scheduled for City Council adoption in June 2022. If appropriate, budget adjustments related to the impacts of the fees and charges study will be recommended during FY 2022/23. Recommended adjustments would be presented for BEC feedback and Council approval and may include:

- Offsetting balancing measures incorporated into the FY 2022-2024 Biennial Budget.
- Funding critical unfunded needs.

### **STRATEGIC PLAN ALIGNMENT:**

The comprehensive user fees and charges study aligns most closely with the following goals of **Strategic Priority 5: High Performing Government:**

- **Goal 5.3:** Enhance communication and collaboration with community members to improve transparency, build public trust, and encourage shared decision-making.
- **Goal 5.4:** Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.
- **Goal 5.5:** Foster a culture of safety, well-being, resilience, sustainability, diversity, and inclusion across the city organization.

The comprehensive user fees and charges study aligns with the Cross-Cutting Threads as follows:

1. **Community Trust** – The comprehensive user fees and charges study is an objective documentation of the cost of providing services. The project is designed to be an inclusive and transparent process that incorporates community engagement and the involvement of City Boards & Commissions, as appropriate. Community outreach will be conducted with full transparency, open to all interested individuals and groups, and with a goal of educating participants, listening to and addressing concerns, and incorporating feedback into the final fee recommendations.
2. **Equity** – The Riverside community at large is invited to participate in community engagement efforts and public meetings related to the user fees and charges study. Equity is a major consideration when recommending fee levels to ensure that City services and programs are accessible to all.

3. **Fiscal Responsibility** – The fee study will inform the public and City leadership of the costs of providing individual services and will include recommendations to align the cost of service to the users benefitting from the service and reduce the subsidy of services currently borne by general revenue sources, such as taxes.
4. **Innovation** – The community engagement aspect of the study will help the City to ensure that the results are aligned with the community's changing needs.
5. **Sustainability & Resiliency** – By realigning the costs of a service to the benefitting user and thereby reducing the subsidy of services from general government revenues, the City is enhancing the preservation of general revenue sources without compromising the needs of the future through unsustainable subsidies.

### **FISCAL IMPACT:**

The fiscal impact of the user fees and charges study is dependent upon the final recommendations and adoption of fee revisions.

Prepared by:	Kristie Thomas, Assistant Chief Financial Officer
Approved as to availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by:	Kris Martinez, Interim Assistant City Manager

Attachments:  
1. Presentation