

**CITY OF DANA POINT
COUNCIL POLICY**

SUBJECT: User Fee Subsidy Policy	PAGE: 1 of 4	EFFECTIVE DATE: 01/16/18	POLICY NO.: 228
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COST RECOVERY

Fees will be set at full cost recovery unless it is determined there must be a subsidy.

Where data is available to do so and to the fullest extent possible, the full cost of providing a good or service, including operating expenses, administrative costs, and capital expenses (including depreciation) should be considered when calculating a user fee.

BACKGROUND

The City of Dana Point charges user fees for certain services. User fees serve several purposes:

- User fees allow for maximum discretion in the use of general taxes. If services partially or fully cover their own cost through user fees, then the City of Dana Point has more options for how available general tax dollars can be used to accomplish other goals. This is particularly important given Dana Point's inability to easily realize tax revenues.
- User fees improve the fairness of how the costs for public services are allocated to members of the public. Some services benefit primarily the individual receiving the service, with the community as a whole receiving relatively little benefit when that individual receives the service. User fees allow the City to assign the cost of these kinds of services directly to the individual receiving them, rather than using general tax revenue that would otherwise be available to benefit the whole community.

Establishing and maintaining fees allows the City of Dana Point to realize the benefits described above.

WHEN USER FEES ARE APPROPRIATE

For services where an individual member of the public is the sole or primary beneficiary of a service, the City may establish user fees according to the cost of the service provided to the recipient of the service. Conversely, if the entire community benefits from a service, then general taxes are an appropriate funding mechanism. In some cases, a service will have both individual and community-wide benefits. In these cases, the service might be partly funded by general taxes and partly through fees.

The City of Dana Point charges user fees for services related to planning, building, engineering, and recreation services, among others.

**CITY OF DANA POINT
COUNCIL POLICY**

SUBJECT: User Fee Subsidy Policy	PAGE: 2 of 4	EFFECTIVE DATE: 01/16/18	POLICY NO.: 228
---	-----------------------------------	---	--------------------------------------

SUBSIDIES

In some cases, it might be appropriate to subsidize all or a portion of a fee for a certain service. For example, some services might provide benefits to the entire community, beyond the individual who is the immediate recipient, or the City might wish to encourage people to use the service more widely than they would if the service were not subsidized. In these cases Council may determine to set a fee at a level below full cost and thus subsidize or waive the fee. For example, the City has traditionally subsidized senior recreation classes, water heater permits, and planning commission appeals.

BALANCING COST-RECOVERY AND SUBSIDIES

City staff shall develop and recommend to the Council subsidy levels for services that assess user fees.

Policy factors to consider in setting subsidy policies should include:

1. **Cost-benefit nexus.** Where there is a strong nexus between the amount paid by the individual who receives the service and benefit received by that same individual, the subsidy should usually be lower.
2. **Similar to private sector service.** Sometimes a City service may be similar to those offered by the private sector. The City should not subsidize services that might be competitors to private offerings.
3. **Fees can be used as a tool to manage demand.** Higher fees discourage people from using a service and thus prevent demand from exceeding the City's capacity to supply the service. The City's capacity includes the capacity of its physical assets, as well as other factors needed to produce services.
4. **The service is regulatory.** The service is required to enforce laws and/or the ordinances of the City and those being regulated cause the City to incur costs.

**CITY OF DANA POINT
COUNCIL POLICY**

SUBJECT: User Fee Subsidy Policy	PAGE: 3 of 4	EFFECTIVE DATE: 01/16/18	POLICY NO.: 228
---	-----------------------------------	---	--------------------------------------

Policy factors suggesting that subsidies might be appropriate include:

1. **Community benefit.** The service creates significant benefit for the community, not just the immediate recipient of the service.
2. **Difficult collection.** Collecting the fee is not cost-effective.
3. **Emergency service.** The service in question is emergency in nature and not planned by the user.
4. **Creates the wrong incentives.** For example, a regulatory fee that is too high may create disincentives to comply with the regulation.

Based on the guidelines above, the City will set subsidy levels for its fees.

REVIEW OF FEES

Fees will be reviewed and updated on an ongoing basis in order to ensure that fees keep pace with changes in the cost of providing a service, as well as changes in methods or levels of service delivery. A comprehensive analysis of a service's costs, the level of service provided, the means by which it is provided, and the fees charged should be made at least every five years, including a recommendation to the Council for any changes to the fee structure and explanation of any subsidies recommended. Such analysis should be coordinated by the Administrative Services Department and submitted for review to the Financial Review Committee (FRC).

In the interim, recommendations should be made to the Council for any adjustments to fees that may be necessary to keep up with known cost increases, or that may be needed for the service to meet its cost recovery goals. Generally speaking, smaller, more regular adjustments to fees are better than waiting several years and making larger adjustments to fees. Use of an inflation factor, such as the consumer price index (CPI) may be an appropriate method to adjust fees in the years where a cost study is not conducted, as long as such an adjustment does not raise the fees above the cost to provide those services.

**CITY OF DANA POINT
COUNCIL POLICY**

SUBJECT: User Fee Subsidy Policy	PAGE: 4 of 4	EFFECTIVE DATE: 01/16/18	POLICY NO.: 228
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REVIEW OF COST SERVICES

In addition to considering if fees are sufficient to cover the cost of services, the City should always consider if the cost providing the service is reasonable, including any promising alternative methods for providing the service to the public.