



MANAGEMENT DIRECTED POLICY

Policy # 25-xxmd

TO: Department Directors

FROM: Jesus Merejo, City Manager

EFFECTIVE DATE: October 1, 2025

INITIATED BY: Finance Department

POLICY TITLE: Cost Recovery Policy

PURPOSE STATEMENT

This Policy serves as a guiding framework to ensure that fees for programs, services, and facility use are set at appropriate levels to recover a portion or all of the associated costs. This Policy supports the City's commitment to fiscal responsibility, transparency, and equitable service delivery.

A consistent and well-defined cost recovery approach provides City staff with the tools needed to evaluate, implement, and adjust fees based on a variety of factors, including the balance of community benefit versus individual benefit. It also allows for flexibility in pricing to reflect the unique characteristics of each service or program.

Cost recovery is a key financial strategy that enables the City to offset service delivery expenses by generating revenue through user fees. Recovery targets may range from 0% to over 100% of total costs depending on the nature of the service, the extent of public benefit, market conditions, and policy considerations. Staff will apply these targets thoughtfully, with attention to efficiency, fairness, and consistency across departments.

SCOPE

This policy applies to fees and charges for specific services requested by individuals or entities, such as permits, licenses, rentals, and registrations. It does not apply to rates established for ongoing services such as water, wastewater, stormwater, or solid waste, which are governed by separate rate-setting policies and methodologies.

DEFINITIONS

As used within this Policy, the following definitions apply unless the context clearly indicates otherwise:

Benefit - the degree to which services impact the public (individual and community).

Community Benefit - provides economic, environmental, social value; maintains or improves quality of life for the taxpaying community.

Individual Benefit - benefits exclusively to the user or users of the Service.

Cost Recovery Model - a framework that helps the City decide how to set prices for programs and services based on who benefits from them and how much they cost to provide

Cost Recovery Rate - the performance metric for cost recovery, expressed as a percentage (revenue divided by expense).

Cost Recovery Target - a goal set for the performance metric, such as percentage of cost recovery.

Direct Cost - includes all the specific, identifiable expenses (fixed and variable) associated with providing a service, program or facility.



MANAGEMENT DIRECTED POLICY

Policy # 25-xxmd

Indirect Cost - encompasses overhead (fixed and variable) including the administrative costs of the agency.

Tier - levels that provide the framework for the cost recovery model that function to define categories of activities by outcomes or benefits and target markets.

Total Cost - all costs associated with provision of services including direct and indirect costs

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.

ADMINISTRATION & IMPLEMENTATION

The City Manager's Office oversees the administration of this Policy; however, each department delivering services is responsible for its implementation.

GUIDING PRINCIPLES AND DESIRED OUTCOMES

Guiding Principles

- Funding strategies, whether through the General Fund, user fees, or other revenue sources, should align with the type of service provided and the balance of community-wide versus individual benefit.
- Fee structures should be developed with consideration for accessibility, fairness, and affordability.

Desired Outcomes

- Increase efficiency in recovering costs associated with the delivery of programs, services, and facilities.
- Establish cost recovery targets that balance financial responsibility with the goal of maintaining an affordable property tax rate.
- Reduce reliance on property tax revenues by supplementing with appropriate user fees.
- Promote long-term financial sustainability through the achievement of defined cost recovery goals.

COST RECOVERY MODEL

Cost recovery through fees, charges, and other tools is a fiscally responsible approach to reducing reliance on tax revenues while supporting high-quality service delivery. This model offers a structured framework for setting fees based on the level of community benefit, market conditions, service demand, target recovery rates, and industry best practices.

Service Tiers and Cost Recovery Targets:

1. **Primary Community Benefit** - programs and services essential to governance, public safety, and community well-being. These are primarily funded by the General Fund.
 - Benefit: Entire community
 - Cost Recovery Target: 0%-10%
2. **Considerable Community Benefit** - Services that improve quality of life and benefit the general public, with limited direct user benefit.
 - Benefit: Mostly community, some individual



MANAGEMENT DIRECTED POLICY

Policy # 25-xxmd

Cost Recovery Target: 11%-40%

3. **Balanced Community & Individual Benefit** - Services with shared benefits between the community and the user. Costs are split between user fees and tax support.
 - Benefit: Balanced
 - Cost Recovery Target: 41%-60%
4. **Considerable Individual Benefit** - Discretionary services that primarily benefit individuals but still offer some public value. Fees should cover the majority of costs.
 - Benefit: Mostly individual, some community
 - Cost Recovery Target: 61%-90%
5. **Primary Individual Benefit** - Services offering direct, individual benefit with little to no public impact. These should be fully funded by the user, with fees possibly exceeding 100% if justified by market rates.
 - Benefit: Individual user
 - Cost Recovery Target: 91% - 100%+

REVIEWING & ESTABLISHING FEES

To maintain alignment with service delivery goals, cost recovery targets, market conditions, and industry standards, fees must be reviewed and updated regularly. Departments are required to submit proposed annual fee adjustments to the Office of Management and Budget by January 1 for consideration in the upcoming budget cycle.

Fee adjustments may also be proposed outside of the budget process when significant changes in service delivery occur or when required by external factors such as new legislation.

In addition to the annual review, a comprehensive cost and fee analysis should be conducted at least every three years for Enterprise Funds and every five years for all other funds, including the General Fund.

All City fees and charges will be established by ordinance or resolution, as appropriate, unless state law specifically requires adoption by other means.

MONITORING & REPORTING

Each year, the Finance Department will provide City leadership with a comprehensive analysis comparing the full cost of services to associated revenues, measured against established cost recovery targets or benchmarks. This evaluation helps assess operational efficiency and inform financial decision-making.

Departments are responsible for tracking and reporting their cost recovery performance to Finance, which will compile the information into a consolidated citywide report.

Once service costs and recovery targets are established, fees should be adjusted annually for inflation using the Consumer Price Index (CPI) and/or the Municipal Cost Index (MCI), unless City Council determines otherwise due to special circumstances.