

Meeting Date: 5/12/2015

Report Type: Consent

Report ID: 2015-00462

Title: Advanced Life Safety Revenue Recovery Policy

Location: Citywide

Recommendation: Pass a Motion adopting the Advanced Life Safety Revenue Recovery Policy.

Contact: Leyne Milstein, Director, (916) 808-8491; Dawn Holm, Budget Manager, (916) 808-5574, Department of Finance

Presenter: Leyne Milstein, Director, (916) 808-8491, Department of Finance

Department: Finance

Division: Finance

Dept ID: 06001011

Attachments:

- 1-Description/Analysis
- 2-Attachment 1-ALS Revenue Recovery Policy
- 3-Attachment 2_Fee and Charge Policy
- 4-Attachment 3-ALS Financial Analysis

City Attorney Review

Approved as to Form
Steve Itagaki
5/6/2015 4:43:54 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 5/4/2015 11:07:14 AM

Description/Analysis

Issue Detail: The City does not currently have a revenue recovery policy for the ALS Program. On April 7, 2015 the Budget and Audit Committee requested that such a policy be developed.

The proposed revenue recovery policy recommends that:

- (a) ALS Program costs be fully offset by revenues; and
- (b) All revenues recovered for the provision of ALS services be used to cover direct and indirect costs to reduce the General Fund subsidy for this program.

Details on the history of the ALS program and revenue recovery are included in Attachment 1.

The proposed policy will address fee for service revenues as well as the recovery of revenues associated with the provision of ALS services from state and federal programs like, but not limited to, the Ground Emergency Medical Transport (GEMT) and Intergovernmental Transfer (IGT) programs.

Policy Considerations: The proposed policy is consistent with the City Council adopted fee and charge policy (Resolution 2014-0111) adopted on May 8, 2014 (Attachment 2) which specifies that "...The City will set fees and rates at levels which fully cover the total direct and indirect costs..." and Council's adopted budget guideline to maintain a fiscally sustainable, balanced budget.

GEMT Revenue Recovery: The FY2011/12 Adopted Budget Resolution (R2011-391) directed any GEMT revenues collected above the budgeted amount be reinvested in the Fire Department to reinstate fire company brownouts and/or add staffed ALS medic units. No GEMT revenues were received in FY2011/12.

With the approval of Measure U the City Council approved the restoration of all brownouts and the addition of ALS medic units as outlined above. Subsequent budget resolutions, superseding R2011-391, have directed unbudgeted revenues to be appropriated to the Economic Uncertainty Reserve (EUR) to achieve the Council's adopted goal of having an EUR equal to 10% of General Fund revenues.

In addition, at the time of the FY2013/14 Midyear report, based on declining ALS revenue recovery, Council reduced ALS budgeted revenues, backfilling the loss with one-time prior year-end results. The intent was for GEMT revenues to be directed to the EUR to restore funds redirected to the ALS program at Midyear. As such, the one-time unbudgeted GEMT revenues (\$2.3 million) received in FY2013/14 were directed to the EUR in the FY2013/14 Comprehensive Annual Financial Report.

Intergovernmental Transfer (IGT) Revenue Recovery: On December 16, 2014 Council authorized the participation in the Rate Range Intergovernmental Transfer (IGT) program. IGT allows local governments to participate in a federal reimbursement program to recover the cost of transport of Medi-Cal patients in managed care. On March 13, 2015 the City transferred \$7,633,464 to the California Department of Health Care Services as required by the IGT Program. To date IGT reimbursements have not been received.

Economic Impacts: None.

Environmental Considerations: This action is not a project subject to CEQA because it involves only general policy and procedure making and government fiscal activities that do not involve any

commitment to any specific project that may result in a potentially significant physical impact on the environment. (CEQA Guidelines § 15378.)

Sustainability: None.

Commission/Committee Action: None.

Rationale for Recommendation: The Policy ensures prudent financial management of the cost recovery for ALS services provided by the Sacramento Fire Department thereby reducing the General Fund subsidy for this program. This policy is consistent with Council adopted policies on fee recovery and sustainable budgeting.

Financial Considerations: Adoption of the Policy is intended to reduce the General Fund subsidy for costs associated with providing the ALS program. A financial analysis of the ALS program is included in Attachment 3. This analysis details the current \$6.6 million General Fund subsidy to cover the unrecovered costs of the ALS program. The costs of the ALS program will continue to grow as a result of rising labor and pension costs.

The current long-term forecast indicates a structural General Fund deficit. A sustainable budget must be evaluated in a long-term rather than a short-term context. Any additional options for revenue recovery should be directed to reduce General Fund program subsidies thereby reducing the projected deficit.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of this report.

Advanced Life Support (ALS) Revenue Recovery Policy

I. PURPOSE

To establish a policy for revenue recovery associated with the cost of providing the City's ALS program.

2. BACKGROUND

On July 27, 1993 (Resolution 93-434), the City established the ALS program. Council stated that the City's ambulance rates should be lower than other local providers given similar customer mixes. The ALS program as approved was to recover the direct cost of providing services without a General Fund subsidy.

As costs for ALS services continue to increase, the revenues generated by fees for service have not grown proportionally. The City is challenged to recover fee for service revenues due to a number of different reasons, one of them being payer mix. The City's payer mix is currently 34% Medicare, 35% Medicaid, and 16% private insurance with the remainder being self-pay and uninsured. In addition there are federal mandated write-offs which allow the City to collect only a small percentage of the actual billed amount from Medicare and Medicaid. In an effort to maximize reimbursements and cover direct costs the City has pursued additional recovery options.

In October 2011, AB 678 authorizing the Ground Emergency Medical Transport (GEMT) program was enacted providing for the reimbursement of transports of Medi-Cal patients who are not in managed care. On March 18, 2014, the City Council authorized the agreement with Sacramento Metropolitan Fire District (Motion No. 2014-0053) to pursue reimbursements through the GEMT program.

On June 26, 2012, the City Council approved increases to the ALS fees for service (Resolution 2012-214) to increase cost recovery to address a portion of the structural variance between the cost of providing services and the revenue collected for those services.

On December 16, 2014, Council authorized the participation in the Rate Range Intergovernmental Transfer (IGT) program. IGT allows local governments to receive a federal reimbursement for the transport of Medi-Cal patients that are in managed care.

While the City can assure the continuation of fee for service revenues, revenue recovery programs such as GEMT and IGT are subject to state and federal funding availability.

3. POLICY

- (a) ALS Program costs shall be fully offset by direct revenues.
- (b) All revenues recovered for the provision of ALS services shall be used to cover ALS direct and indirect costs to reduce the General Fund subsidy for this program.

RESOLUTION NO. 2014-0111

Adopted by the Sacramento City Council

May 8, 2014

APPROVING CITYWIDE FEE AND CHARGE ADJUSTMENTS

BACKGROUND

- A. On February 7, 2006, the City Council adopted the Citywide Fees and Charges policy (Resolution No. 2006-106).
- B. The City has used the Employee Cost Index for State and Local Government Employees, Total Compensation as published by the Bureau of Labor Statistics for inflationary adjustments. Beginning in FY2014/15 the City will use the State of California Department of Industrial Relations Consumer Price Index (CPI) which is the same index used by the County Assessor to adjust the annual property tax roll for inflation. This change will align adjustments for inflation affecting the City's largest revenue source, property taxes, with the fees that are also indexed against inflation.
- C. Implementation of the policy requires a necessary mechanism to ensure that the City's fees and charges reflect the City's current costs and that those fees and charges are reviewed on an annual basis by City Council. Staff has conducted the required annual review and recommends certain new fees and fee adjustments.
- D. Proposed new fees, deleted fees, and fee adjustments are set forth in Exhibit A.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The fee and charge policy is approved as amended in Exhibit A.
- Section 2. The fee and charge adjustments as set forth in Exhibit B are hereby approved.
- Section 3. Exhibits A and B are part of this resolution.

Table of Contents

Exhibit A: Amended Fee and Charge Policy

Exhibit B: FY2014/15 Adjustments to Fees and Charges

This exhibit, pages 8-14 of the Resolution, are not applicable to this report.

Adopted by the City of Sacramento City Council on May 8, 2014, by the following vote:

Ayes: Members Ashby, Cohn, Fong, Hansen, McCarty, Pannell, Warren

Noes: None

Abstain: None

Absent: Members Schenirer and Mayor Johnson

Attest:

Shirley A. Concolino

Digitally signed by Shirley A. Concolino
DN: cn=Shirley A. Concolino, o=City of Sacramento, ou=City
Clerk, email=sconcolino@cityofsacramento.org, c=US
Date: 2014.05.13 12:39:27 -07'00'

Shirley Concolino, City Clerk

CITY OF SACRAMENTO FEES AND CHARGES POLICY

The City of Sacramento has the ability to determine the extent to which fees should be used to fund City facilities, infrastructure and services.

There are five main categories of fees that the City currently implements¹:

- ✓ **Impact/development fees** are typically one-time charges levied by the City against new development to generate revenue for the construction of infrastructure and capital facilities needed to offset the effects of the new development.
- ✓ **Service fees** are charges imposed on persons or property that are designed to offset the cost of providing a government service. Sometimes these services are elective, such as fees for processing voluntary development permit applications, or providing service/recreation programs, while other service fees are not, such as mandatory service fees for trash or utility services. Such fees are typically reasonably related to the cost of providing the service for which the fee is imposed. Otherwise, the fee may constitute a special tax for which voter approval is required by Propositions 13, 62, and 218.
- ✓ **Regulatory fees** are imposed to offset the cost of a regulatory program, such as business regulatory fees, or to mitigate the past, present or future adverse impact of a fee payer's operations. While payment of a regulatory fee does not necessarily provide any direct benefit from payment of the fee, there must be a "nexus" between the activity and the adverse consequences addressed by the fee. Common examples of regulatory fees include inspection fees and business license fees designed to reimburse a local agency for the cost of monitoring the business and enforcing compliance with City code.
- ✓ **Rental fees** are charged for the rental of public property and include the rental of real property, parking spaces in a public parking lot, or the rental of community facilities such as a recreation or community room or picnic area. Rental fees are not subject to the general rule that the fee must bear a direct relationship to the reasonable cost of providing the service for which the fee is charged however, rental fees must be fair and reasonable.
- ✓ **Penalties/Fines** are payment required for non-compliance or failure to adhere to specific rules and/or requirements.

This document sets forth guidelines for:

- Establishing cost recovery goals;
- Determining the categories of cost recovery levels in which to categorize/organize fees;

1. League of California Cities Website: Spring Meeting May 13-15, 1998 Laurence S. Wiener, Esq. City Attorney of Beverly Hills and Westlake Village **THE CITY ATTORNEY'S ROLE IN EVALUATING FEE STUDIES.**

- Methods for determining which category a fee falls under; and
- Establishment and modification of fees and charges.

A. Cost Recovery Goals

In setting user fees and cost recovery levels, the following factors will be considered²:

- 1) The amount of a fee should not exceed the overall cost of providing the facility, infrastructure or service for which the fee is imposed. In calculating that cost, direct and indirect costs may be included. That is:
 - Costs which are directly related to the provision of the service; and,
 - Support costs which are more general in nature but provide support for the provision of the service. For example, service fees can include reimbursement for the administrative costs of providing the service. Development fees can include the cost of administering the program to construct public facilities that are necessary to serve new development.
- 2) The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- 3) Fees should be sensitive to the “market” for similar services.

In addition, in setting enterprise fund fees and cost recovery levels, the following factors will be considered:

- 4) The City will set fees and rates at levels which fully cover the total direct and indirect costs, including operations, capital outlay and debt service of the enterprise programs.
- 5) The City will review and adjust enterprise fees and rate structures as required to ensure that they remain appropriate and equitable.

B. Categories of Cost Recovery Levels in Which to Categorize/Organize Fees

There are five categories of cost recovery levels in which to classify fees:

1. **Enterprise:** Full direct and indirect cost recovery (100% of total costs) for enterprise services such as water, sewer and solid waste, as well as impact/development fees.
2. **High:** Full direct cost recovery (81-100% of total costs).
3. **Medium:** Recovery between 41-80% of direct costs.
4. **Low:** Recovery between 0-40% of direct costs.

² Government Finance Officers Association Website, Best Practices in Public Budgeting, City of San Luis Obispo: User Fee Cost Recovery Goals, 2005.

5. **Other:** Fees based on market, geography, assessment, project specific, legal limits or specific Council policy.

The City may choose, for policy reasons, to set fees at less than full recovery. For example, fees based on market, geography, assessment, project specific, statutory/legal limits or specific Council policy. In some cases, the City will acknowledge that a subsidy is acceptable, or even necessary to ensure program access and viability.

C. Methods for Determining Which Category a Fee Falls Under

Implementation of higher cost recovery levels is appropriate under the following conditions (up to 100% of the cost of the service or program):

- The service is regulatory in nature (e.g. building permits, plan check fees);
- The service is similar to services provided through the private sector;
- Other private or public sector alternatives could or do exist for the delivery of the service;
- Over-use of the service is specifically discouraged (e.g. police responses to disturbances or false alarms might fall into this category).
- Over-use of the service or facility is a specialized use that could be provided at a lower cost if not for specific nature or service (e.g. lighted fields).

Lower cost recovery levels are appropriate under the following conditions:

- There is no intended relationship between the amount paid and the benefit received. (It is likely that some recreation and human service programs fall into this category as it is expected that these programs will be subsidized by funds);
- Collecting fees is not cost-effective or will significantly effects the accessibility to the service;
- The service is non-recurring, generally delivered on a peak demand or emergency basis, cannot be planned for and is not readily available from a private sector source (e.g. public safety services);
- Collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City.

Other:

- Market pricing requires that there be a direct relationship between the amount paid and the level and cost of the service received or a direct relationship to actual prices being charged for the service in the current market.
- Legal specifications and/or limitations to the amount that is charged.
- Adopted Council Policy setting specific fee.

Factors to Consider

The extent to which the total cost of service should be recovered through fees depends upon the following factors:

- ✓ The nature of the facilities, infrastructure or services;
- ✓ The nature and extent of the benefit to the fee payer;
- ✓ The effect of pricing on the demand for services; and
- ✓ The feasibility of collection and recovery.

The chart below reflects these factors and the potential options for higher or lower cost recovery³:

	The Nature of the Facilities, Infrastructure or Services	The Nature and Extent of the Benefit to The Fee Payers	Effect of Pricing on the Demand for Services	Feasibility of Collection and Recovery
Higher Cost Recovery	In the case of fees for facilities, infrastructure and proprietary services ⁴ , total cost recovery may be warranted.	When a particular facility or service results in substantial, immediate and direct benefit to fee payers, a higher percentage of the cost of providing the facility or service should be recovered by the fee.	Because the pricing of services can significantly affect demand, full cost recovery for services is more appropriate when the market for the services is strong and will support a high level of cost recovery.	In the case of impact fees, which can be collected at the time of issuance of a building permit, ease of collection is generally not a factor.
Lower Cost Recovery	In the case of governmental services ⁵ , it may be appropriate for a substantial portion of the cost of such services to be borne by the City's taxpayers, rather than the individual users of such services.	When a particular facility or service benefits not only the fee payer but also a substantial segment of the community, lower cost recovery is warranted.	If high levels of cost recovery affect accessibility to or negatively effect the delivery of services to lower income groups, this should be considered based on the overall goals of the program being implemented.	Some fees may prove to be impractical for the City to utilize if they are too costly to administer.

D. Establishment and Modification of Fees and Charges

³ Government Finance Officers Association Website, Best Practices in Public Budgeting, City of Fort Collins, CO: User Fee Policies, 2005.

⁴ Proprietary services are those which are provided for the benefit and enjoyment of the residents of the City

⁵ Governmental services are those which are provided by the City for the public good such as regulating land use, maintaining streets, and providing police and fire protection.

Fees will be reviewed and updated on an ongoing basis as part of the annual budget process to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery. At the beginning of the budget process each department will submit a list of proposed adjustments to their section of the master fee schedule. Each service must be assigned a target cost recovery level as defined above.

Maintaining competitive status and comparability with other cities should be considered when determining new fee levels. Those fees that are proposed for adjustment should be benchmarked against neighboring jurisdiction fee schedules or appropriate service markets. The benchmark analysis should be taken into consideration when making final pricing decisions.

However, the City may choose, for policy reasons, to set fees at less than full recovery. (for example, fees based on market, geography, assessment, project specific, statutory/legal limits or specific Council policy). As stated above, in some cases, the City will acknowledge that a subsidy is acceptable, or even necessary to ensure program access and viability. Where appropriate, fees that have not been increased in some time should have increases phased in over several years to avoid 'sticker shock' increases.

If a particular fee is not adjusted in the budget process, to the extent feasible and/or appropriate, it should be increased biennially by a CPI factor to keep pace with inflation. Beginning in FY2014/15 the City will use the State of California Department of Industrial Relations Consumer Price Index (CPI) which is the same index used by the County Assessor to adjust the annual property tax roll for inflation.

Biennially, the Finance Department shall determine the percentage change in this index and apply the increase or decrease to the master fee schedule, rounding up to the nearest whole dollar. Certain fees are exempt from an index adjustment, such as fees set by the State of California, percentage-based fees or those that have been identified as inappropriate for indexed fee increases (e.g. feasibility or fees that are based on market for services). Exempt fees are noted in the master fee schedule. Council may consider fee issues outside of the annual budget process on a case-by-case basis.

The City should conduct a comprehensive cost of service analysis every five to seven years to ensure fees and charges are set appropriately. Generally, fees may be adjusted based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery. For example, changes in processes and technology change the staff time required to provide services to the public. A cost of service study will identify and quantify these changes.

Advanced Life Support Cost Analysis¹

18,786,090	Revenues
17,518,826	ALS Operating Expenses (Labor and Services & Supplies)
3,259,872	Ambulance and Paramedic Incentives ²
849,875	Fleet Expenses (Ambulance Fuel & Maintenance) ³
3,109,285	Cost Plan Charges ⁴ <i>updated to reflect FY 2016 Cost Plan</i>
606,500	Capital Expenditures (Ambulances) ⁵
25,344,358	Subtotal Expenses
(6,558,268)	Gain/(Loss)⁶

¹Revenues/Expenses are based on FY16 Proposed Budget

²Incentives paid to Suppression and other department staff not included in ALS Operating Budget

³Fleet vehicle charges are based on FY2013/14 actual costs for ambulances in service

⁴The City's Cost Allocation Plan (CAP) identifies and distributes the allowable General Fund costs of the operating departments, specifically the support departments such as Mayor/Council, Charter Offices, Finance, Human Resources, Information Technology and General Services. These costs reflects charges that would be incurred if ALS was an enterprise fund. This includes the Fire Department Indirect Cost Recovery based on ALS FTE % of Total Fire FTE (16%)

⁵Reflects funding included in the 2015-2020 Proposed CIP

⁶If ALS were operated as an enterprise fund there would be an additional cost of approximately \$2.067 million for an in lieu franchise tax payment to the General Fund as is required of all other City enterprise funds