

EXHIBIT A



City of Burbank

Cost Recovery Policy

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## 1.1 PURPOSE

It is necessary for the City of Burbank (City) to have a sound and consistent pricing policy that will serve as a management tool for establishing, implementing and evaluating various fees and revenue options.

The new Policy is designed to provide staff with consistent guidelines in pricing admissions, use of facilities, establishing program fees based on the individual benefits a user receives above a general taxpayer. The policy will help address revenue goals to support operational costs, provide greater fairness in pricing services to users, and help support the implementation of future programs, facilities and services. This Policy allows the City services users, staff and general taxpayers to better understand the philosophy behind pricing of a program or service. The Pricing Policy is based on the cost recovery goal for the service established by the City of Burbank to provide the service and whether the service is a public, public and individual, or primarily an individual benefit service.

## 1.2 ISSUES ADDRESSED

The Cost Recovery Policy will help to:

- Increase revenue and cost recovery of programs in a fair and appropriate manner.
- Establish a fair and appropriate rationale for the level of general fund tax subsidy of programs, services and facilities based on categories of service and level of public versus individual benefit.
- Reduce General Fund tax support of the Departments.
- Allow for expansion and enhancement of services by utilizing tax and program revenues more effectively.
- Establish the correct price for a given program, service or facility.

## 1.3 COST RECOVERY POLICY MODEL – PRINCIPLES, DEFINITIONS AND CRITERIA

The guiding principles for the creation of an effective pricing policy are as follows:

- Accessibility, Fairness and Affordability based on the category of service and benefit level.
- Effective and appropriate funding strategies from General Fund, user fees and other sources.
- Improved efficiency in the cost of providing programs, services and facilities.
- Financial sustainability by achieving established cost recovery targets.

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### 1.3.1 DEFINITION OF TERMS:

**Public Services** are services the City offers that provide all users the same level of opportunity to access the service. The level of benefit is the same to all users. Public Services normally have low level or no user fees associated with their consumption. The cost for providing these services is borne by the general tax base.

**Public and Individual Benefit Services** are services whereby the user receives a higher level of benefit than the general taxpayer. The taxpayer benefits as a whole because the service provides a more livable community and the service has a good public benefit as well. Public and Individual Services can be priced using either a partial overhead pricing strategy or a variable cost pricing strategy. Partial overhead pricing strategies recover all direct operating costs and some determined portion of fixed indirect costs. Variable cost pricing strategies recover a determined portion of the fixed direct costs by adding a markup to the variable costs. The expectation is that the markup will contribute to meeting all or a part of fixed direct costs, and generate some level of indirect cost recovery.

The portion of fixed indirect costs not recovered by the price established represents the tax subsidy. Whatever the level of tax subsidy, staff needs to inform the users by letting them know that the City is investing a certain dollar amount and/or what percentage level of investment they are making in their experience.

**Individual Benefit Services** are services where only the user benefits. For these services, the City should implement a pricing strategy to achieve full cost recovery. The price of this particular service is intended to recover all direct and indirect costs associated with providing the service.

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### 1.3.2 DIRECT VS. INDIRECT EXPENSES

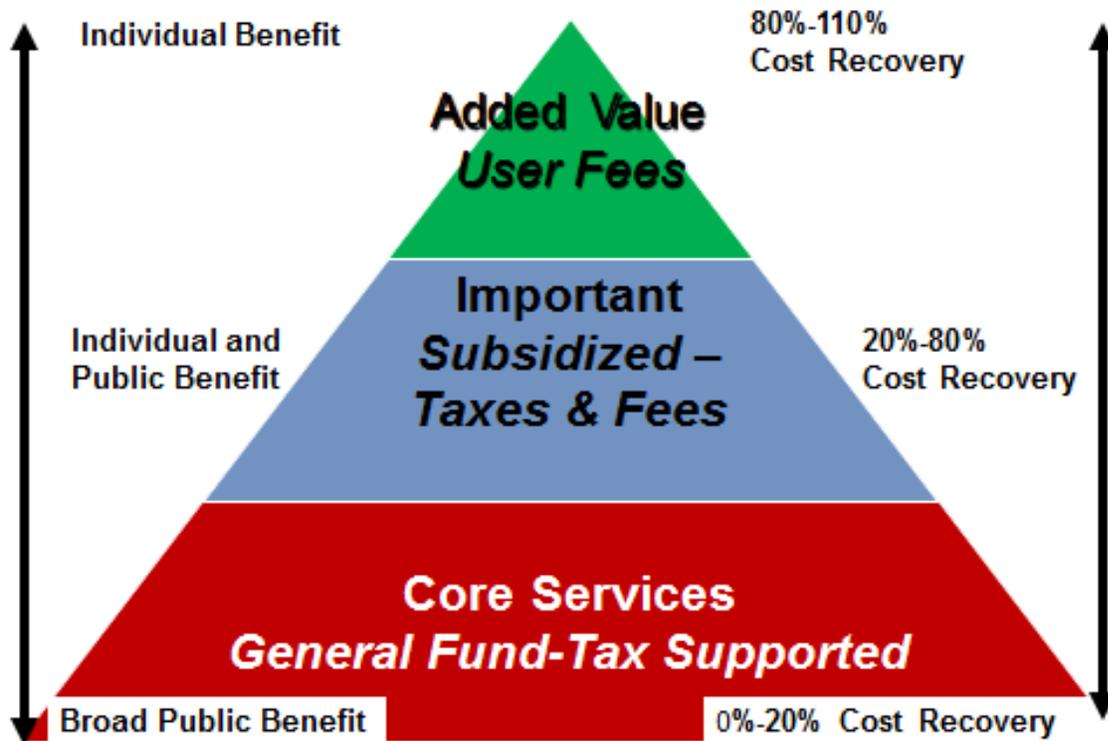
**Direct Expenses** are City costs associated with staff, materials and supplies and other resources associated with providing the program, service or operating the facility. Direct expenses also includes the proportional cost of the program or facility supervisor, coordinator or administrative personnel based on the time required to plan, organize and direct the operation of that program, service or facility.

**Indirect Expenses** are the cost of the City Departments to provide the program or facility. Indirect expenses include Department Administration, marketing, information technology, and facility or maintenance staff. Indirect expenses can also include City wide functionalities such as Human Resources, Finance, City Manager and City Attorney time associated with supporting the operation of the program or facility.

**Cost Recovery Percentage** outlined in this Policy is based on Direct Expenses only, and does not include Indirect Expenses. It is generally recommended that an additional 5%-10% be added to the fees established for Important and Value Added programs, services and facilities and 0%-5% for Core Services programs, services and facilities to attempt to offset some portion of the Indirect Expenses associated with providing those activities.

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### 1.3.3 BENEFIT AND COST RECOVERY POLICY MODEL



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### 1.3.4 DEFINITION AND CRITERIA FOR CORE SERVICES

Core services are those programs, services and facilities that the City of Burbank must provide and/or are essential in order to capably govern the municipality and operate. The failure to provide a core service at an adequate level would result in a significant negative consequence relative to the City's health and safety and economic and community vitality. The criteria for a core service are:

- City of Burbank is mandated by law or is contractually obligated by agreement to provide the service.
- The service is essential to protecting and supporting the public's health and safety.
- The service protects and maintains valuable City assets and infrastructure.
- The City's residents, business customers and partners would generally and reasonably expect and support the City in providing the service, and that service is one that cannot or should not be provided by the private sector, and provides a sound investment of public funds.

**CORE SERVICES: TARGET COST RECOVERY AND FUNDING STRATEGY**

Core Programs	Service Classification	Benefit Level	Target Cost Recovery	Pricing Strategy
<b>City Clerk</b>				
Elections, City Council Material Distribution, Boards and Commissions, Filings, and Record Management	Core	Public	5%	General Fund and User Fees
<b>Fire Department</b>				
Emergency Medical Services- Paramedic and Ambulance Fees	Core	Public	20.0%	General Fund and User Fees
<b>Library Services Department</b>				
Interlibrary Loan	Core	Public and Individual	20.0%	General Fund and User Fees
<b>Parks and Recreation Department</b>				
Senior Center Activities, Programs, Seminars, and Events	Core	Public and Individual	20.0%	General Fund and User Fees
Recreation Centers, Community Center, Aquatic Center and Nature Center	Core	Public	10.0%	General Fund and User/Rental Fees
Memorial Day, Veteran’s Day, Holiday Special Events	Core	Public	0.0%	General Fund and Donations
Maintenance of Parks	Core	Public	0.0%	General Fund
<b>Police Department</b>				
Noise enforcement	Core	Public	100.0%	User Fees
Police Patrol	Core	Public	0.0%	General Fund
<b>Public Works Department</b>				
Parking Permit Program	Core	Public and Individual	20.0%	General Fund and User Fees

**1.3.5 DEFINITION AND CRITERIA FOR IMPORTANT SERVICES**

Important services are those programs, services and facilities the City should provide, and are important to governing the municipality and effectively serving its residents, businesses, customers and partners. Providing important services expands or enhances the ability to provide and sustain the City’s core services, health and safety, and economic and community vitality. The criteria for an important service are:

- Service provides, expands, enhances or supports identified core services.
- Services are broadly supported and utilized by the community, and are considered an appropriate, important, and valuable public good. Public support may be conditional upon the manner by which the service is paid for or funded.
- Service generates income or revenue that offsets some or all of its operating cost and/or is deemed to provide an economic, social or environmental outcome or result within the community.

**IMPORTANT SERVICES: TARGET COST RECOVERY LEVELS AND FUNDING STRATEGY**

<b>Important Programs</b>	<b>Service Classification</b>	<b>Benefit Level</b>	<b>Target Cost Recovery</b>	<b>Pricing Strategy</b>
<b>Community Development Department</b>				
Water Heater Installation Permits	Important	Individual	<b>30.0%</b>	General Fund and User Fees
Burbank Bus Senior and Disabled Transit	Important	Individual	<b>20.0%</b>	General Fund and User Fees
<b>Fire Department</b>				
Hazardous Materials Program Fees	Important	Public and Individual	<b>50.0% - 100.0%</b>	General Fund and User Fees
Fire Permit Fees	Important	Public and Individual	<b>50.0% - 100.0%</b>	General Fund and User Fees
Fire / Life Safety Inspection Fees	Important	Public and Individual	<b>50.0% - 100.0%</b>	General Fund and User Fees
Fire / Life Safety Plan Check Fees	Important	Public and Individual	<b>50.0% - 100.0%</b>	General Fund and User Fees
Off-Duty Fire Safety Officers	Important	Public and Individual	<b>50.0% - 100.0%</b>	User Fees
<b>Library Services Department</b>				
Exam Proctoring	Value Added	Individual	<b>20.0%</b>	General Fund and User Fees
Meeting Room Rentals	Value Added	Individual	<b>35.0%</b>	General Fund and User Fees
<b>Parks and Recreation Department</b>				
Youth Sports Leagues	Important	Public and Individual	<b>50.0%</b>	General Fund and User Fees
Civitan Jamboree Day	Important	Public and Individual	<b>20.0%</b>	General Fund, User Fees and Sponsors
Youth Leadership Program (Youth/Teen Development)	Important	Public and Individual	<b>50.0%</b>	General Fund, User Fees, and Donations
RISE Leadership Program	Important	Public and Individual	<b>20.0%</b>	General Fund and Sponsorship
Home Delivered Meal Program	Important	Public and Individual	<b>30.0%</b>	Grant, General Fund and Volunteers
<b>Police Department</b>				
Drug Registrant	Core	Public	<b>100.0%</b>	User Fees
Vehicle Impounding	Core	Public	<b>100.0%</b>	User Fees
Animal Impounding	Core	Public	<b>100.0%</b>	User Fees
<b>Public Works Department</b>				

### 1.3.6 DEFINITION AND CRITERIA FOR “VALUE ADDED” SERVICES

Value Added services are discretionary programs, services and facilities that the City may provide when additional funding or revenue exists to offset the cost of providing those services. These programs and services provide added value to the residents, businesses, customers and partners above and beyond what is required or expected of a municipality. The criteria for added value services are:

- Service expands, enhances or supports Core or Important services, and the quality of life of the community.
- Services are supported and well utilized by the community, and provide an appropriate and valuable public benefit.
- Service generates income or funding from sponsorships, grants, user fees or other sources that offsets some or all of its cost and/or provides a meaningful economic, social or environmental benefit to the community.

#### VALUE ADDED SERVICES: TARGET COST RECOVERY LEVELS AND FUNDING STRATEGY

Value Added Programs	Service Classification	Benefit Level	Target Cost Recovery	Pricing Strategy
<b>City Clerk</b>				
Passport Services	Value Added	Individual	100.0%	General Fund and User Fees
<b>Fire Department</b>				
EMS Membership Program	Value Added	Individual	100.0%	General Fund and User Fees
Citizen CPR Classes	Value Added	Public and Individual	100.0%	User Fees
Fire Extinguisher Training	Value Added	Individual	100.0%	User Fees
California Environments Reporting System (CERS) Submittal Assistance	Value Added	Individual	100.0%	General Fund and User Fees
<b>Parks and Recreation Department</b>				
Afterschool Program (ASD)	Value Added	Individual	100.0%	General Fund and User Fees
Preschool, Youth, Teen and Adult Classes and Special Interest	Value Added	Individual	100.0%	User Fees
Go Party! (birthday party packages)	Value Added	Individual	100.0%	User Fees
Military Banner Program	Value Added	Individual	50.0%	General Fund and Sponsorships
Nature, Art Experience and Sports Camps	Value Added	Individual	100.0%	User Fees
Adult Sports Leagues	Value Added	Individual	100.0%	User Fees
<b>Police Department</b>				
Dead Animal Disposal	Value Added	Individual	100.0%	User Fees and Donations
Animal Vaccination	Value Added	Individual	100.0%	User Fees and Donations
<b>Public Works Department</b>				

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### 1.3.7 ACCESSIBILITY, FAIRNESS AND AFFORDABILITY

This Policy supports equity and fairness because it requires those who personally benefit from a program or service above what the general taxpayer receives is required to pay for that added benefit. Affordability should be based on both the level of benefit and ability to pay. For example, the City should not subsidize programs with tax support solely based on the age of the user. The type of service and benefit received will directly determine the cost recovery level or pricing strategy to be used in the pricing of the services and products.

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### 1.3.8 BURBANK PROGRAM ACTIVITY SERVICE SUBSIDY (PASS)

The City of Burbank should market and promote utilization of its BURBANK PASS program to enable low income individuals to participate in select programs. This program is designed to provide financial assistance to individuals who would not have had the opportunity to participate. The pricing recommendations include a two tier structure. The City should designate core programs where eligible participants would receive a subsidy range of 80-100% off of the fees to allow participation. The City should provide 50% subsidy for other programs that are considered either categorized as “Important” or “Value Added.” The Burbank PASS program is allocated annually. Funds to offset Burbank PASS are generated through revenue set-aside from various programs and by the General Fund. Burbank PASS should be restricted to residents of the City of Burbank. Per the PASS program criteria, eligibility is based on the total gross family income and number of members in the household. The City established a cap on amount for each eligible resident and/or family to facilitate greater participation.

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### 1.3.9 SUPPLEMENTAL FUNDING

Supplemental funding from user fees and prices charged for programs, activities and services assist in the overall funding of the City’s operations. The revenue produced through supplemental funding provides the City the needed revenue for operations, capital costs and marketing to promote programs and services available to the community. These dollars can come from any source that supports operations and include grants, sponsorships, partnerships, permits, special rental uses, concessions and many other options. The City should identify supplemental funding opportunities whenever possible and where appropriate.

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### 1.3.10 EFFICIENCY

City staff can evaluate how the service is delivered and if it is delivered in the most effective and efficient manner based on the cost to deliver the service. Priorities to enhance user or visitor experiences are clearly defined because the services provided are clearly made visible and the priorities are established based on the direct user costs that are associated with the activities that users want. Pricing of services correctly can achieve six positive results:

1. Reduces overcrowding of programs and facilities which enhances supervision and improves visitor experience.
2. Indicates user and visitor demand and support for the service.
3. Increases positive user and visitor feedback.

4. Provides encouragement to the private sector to partner with Departmental programs through contracts that can bring greater revenue to the City.
5. Ensures stronger accountability on staff and management of the service.
6. Creates program choices for those who want a higher level of quality or individual attention. (I.e. private lessons versus group lessons) through differential pricing.

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#### 1.3.11 DISTRIBUTION OF REVENUE FUNDS TO ACHIEVE COST RECOVERY GOALS

Distribution of Revenue means dollars generated from each activity are redistributed back to the area they came from to pay direct and indirect costs in some situations, and for future improvements associated with a facility or activity. The staff will document the cost of services provided through a costing model. The true cost of each activity is designated as direct and indirect costs associated with providing a product or service.

An annual review of all prices is recommended to document the changes that have occurred within the products or services provided by City. This will help staff to evaluate which program, product or service should have adjustments based on the Policy.

City of Burbank City Council and staff will set prices for services based on the following process:

- What is the cost to provide the service and what is the unit cost per registered participant or attendance at the program or facility?
- Is the program or service core, important or value added based on the criteria established and the level of cost recovery and subsidy?
- What level of benefit does the program provide? Is the benefit public, individual and public or primarily an individual benefit based on the definitions in the pricing policy?
- Does this price support the cost recovery goal desired for the program or facility to support sustainability?

### 1.4 PRICING POLICIES AND PROCEDURES

Key Elements in implementing the Pricing Policy include:

- Create appropriate value based on benefit level and price accordingly.
- Calculate the costs (direct/indirect) and level of cost recovery goal as established for that service.
- Compare how the program price of facility use cost compares in the market place of private and public providers.
- Price services correctly the first time based on cost and target for cost recovery.
- Use differential pricing based on participant, product, and times to encourage greater use of the service or facility.
- Educate staff, volunteers, boards and officials on the methodology to establish cost recovery, level of subsidy and eventual price for program, service or facility.
- Communicate cost of service to program and facility users so they understand how their fees contribute to the total cost of the service and level of subsidy from City.

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#### 1.4.1 ESTABLISH PRICING/COST RECOVERY CRITERIA

- Does this program/service align with the Departmental Vision and Mission?
- The program/service meets at least one of the strategic directions as outlined in the City's Strategic Plan.
- The program has a strong social value that is part of a solution to an identified strategic direction.
- The program, service or facility is capable of achieving its established cost recovery target.
- The program has strong economic appeal and creates a positive return on investment.
- The program has a high partnering capability to expand or enhance service and/or offset operational costs.
- The program/service currently meets the capacity performance measures developed by staff.
- What classification of Benefit Level does it fall under (Public, Public and Individual or Individual)?
- What is the true cost to provide the service and current level of subsidy?
- What is the current price of the service and what level of cost recovery does it support now? What pricing alternatives are currently being used?

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#### 1.4.2 PRICING AND COST RECOVERY GOALS

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##### PUBLIC BENEFIT SERVICES = CORE DIRECT COST RECOVERY: 0%-20%

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Core services provide the broadest public and community benefit to the City of Burbank and should be primarily funded by the City's General Fund and tax support. A higher level of tax support is appropriate as it helps the City achieve key elements of its strategic plan and support the values of the City in serving the public.

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##### PUBLIC AND INDIVIDUAL BENEFIT SERVICES =IMPORTANT DIRECT COST RECOVERY 20%-80%

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Important services provide both a public, as well as individual benefit to the program or service user. The City should provide these services at a shared funding strategy that requires the participant to pay a portion of the cost through user fees. Additionally, the City may utilize grants or partner funding to augment the cost of the program/service. The City should subsidize these programs/services with the General Fund based on a targeted percentage of cost recovery.

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##### INDIVIDUAL BENEFIT SERVICES = VALUE ADDED DIRECT COST RECOVERY: 80%-110%

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Value added services primarily provide an individual and private benefit to the program or service user. Consequently, the City should recover the cost of providing these programs and services through user and rental fees. Additionally, the City may provide value added programs when outside funding, grants or sponsorships exist that substantially offset the cost of providing these programs. Pricing for these programs, services or facility use should be established based on a consideration of cost to the City and market rate for comparable programs, services or facility use.

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### 1.4.3 PRICING METHODOLOGIES

Pricing programs, services, and use of facilities should be based on a consideration of both direct and indirect cost to City of Burbank as well as the “market based value” of the service. Pricing should be evaluated annually and, as needed, comparison rates should be considered during that process. Flexibility is needed to maximize Department revenues and to respond to changing market conditions such as demand versus capacity, weather, changes to the cost of providing the service and/or additions or changes to existing programs.

Pricing Options to consider:

- Differential between resident and non-resident rates
- Prime time/non-prime time rates
- Group or Volume Discount rates
- In season/off season rates
- Change the minimum numbers higher to hold program(low cost-high volume approach)to spread cost to more people while keeping price the same
- Reduce the staffing or material cost or length of a program/service to keep existing price
- Change the City/Contractor percentage split to increase revenue to the City

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### 1.4.4 NON RESIDENT FEE DIFFERENTIAL

The criteria for establishing the differential percentage charged for non-residents for programs, services or facility rentals will generally be as follows:

- A higher general fund subsidy by the City will justify a higher non-resident fee. Conversely, a lower non general fund subsidy of a program or service will justify a lower or no fee differential.
- Higher demand by City residents or limitations in capacity will justify higher non-resident fees. Conversely, a low demand or high capacity will justify a lower or no fee differential.
- Youth and teens attending schools in City of Burbank should be considered residents.
- Where appropriate, Burbank businesses may receive a resident rate.

It is also recommended that the City publicize the price differential for City residents versus non-residents as a “resident discount.” This language more accurately reflects the City policy of subsidizing some programs for residents through General Fund tax support. For example, a youth or teen camp might be priced at \$50 per session, with a resident discount rate of \$40. This would represent a 20% differential between the prices of the program for residents versus non-residents.

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#### 1.4.5 ADMINISTRATIVE OVERHEAD COST RECOVERY (INDIRECT COSTS)

In addition to the direct cost recovery targets established for individual programs, the City should establish a percentage of cost recovery for programs, services and facility use. The administrative overhead fee is designed to recover the proportional cost of the administration, marketing and advertising, and general support staff which contribute time and expense in support of the programs. In general, this fee should be established to recover an additional 5%-10% of the cost of the programs. It is important to note, this does not address building maintenance, replacement, etc.