



Legislation Details (With Text)

File #: 19-874 **Version:** 1 **Name:**

Type: Study Session **Status:** Agenda Ready

File created: 7/16/2019 **In control:** City Council and Authorities Concurrent

On agenda: 10/22/2019 **Final action:**

Title: Discussion and Review of User Fees for Cost of Services - Phase II

Sponsors:

Indexes:

Code sections:

Attachments: 1. Report on the Cost of Services (User Fee) Study - Phase I and II, 2. POST MEETING MATERIAL

Date	Ver.	Action By	Action	Result
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REPORT TO COUNCIL

SUBJECT

Discussion and Review of User Fees for Cost of Services - Phase II

EXECUTIVE SUMMARY

On May 21, 2019, staff conducted a Study Session with the Council to review the City’s current fee structure. As part of that Study Session, the Council established a three-phased workplan for the review and update of all Citywide User Fees. In addition, the Council discussed the findings of the Cost of Services Study (User Fee Study) and conducted a detailed review of Phase I summary of findings and results. The User Fee Study identifies areas where the City is currently under-collecting the cost associated with providing services, in an amount of approximately \$22.4 million. As a result, the City is subsidizing these services with other City revenue sources. On July 16, 2019, Council adopted the fee changes recommended as part of Phase I of the User Fee Study which are reflected in the current 2019/20 Municipal Fee Schedule.

Specific areas of focus in Phase II are development-related User Fees and non-development Fire fees. A third component of the original Phase II User Fee Study was the establishment of a streamlined fee structure for Community Room Rentals across the City. On October 15, 2019, study sessions were held with both the Library Board of Trustees as well as the Parks and Recreation Commission to review an initial staff proposal. Both bodies provided valuable feedback that requires additional staff work. As such, the Community Room Rental fee structure proposal will be brought forward to Council under separate cover at a later date.

Staff is requesting policy direction from the Council on proposed adjustments to development-related and non-development related fees in order to complete the Phase II review.

BACKGROUND

It is incumbent upon government agencies to periodically evaluate and update their fee schedules to manage resources efficiently and meet service demands. In California, several constitutional

provisions set the parameters under which the user fees are established and administered. Applicable state law requires that any user fee charged by the City be “no more than necessary to cover the reasonable costs of the governmental activity” (Cal. Const. Art 13C §1).

Historically, the City has sought to maximize cost recovery through annual review and evaluation of fees that are set at appropriate levels to cover the escalating costs of doing business and that take market comparisons into consideration.

At the City Council Goal and Priority Setting Session held on January 31 and February 1, 2019, the Council adopted Budget Principles for the FY 2019/20 and FY 2020/21 Biennial Operating Budget. The Council adopted the following budget principle related to cost recovery for fees:

- With limited exceptions, establish fees based on full cost recovery where individuals/businesses rather than the community at-large are benefiting from City services. This preserves limited unrestricted resources for providing services that benefit the community as a whole.

The City’s cost of service fees, also referred to as user fees, are a compilation of fees for City services provided to members of the public. These services generally do not rely on tax revenues but are provided for the benefit of individual members of the public. The advantages of updating the City’s user fees include assuring that fees are set based on current costs and approved cost recovery objectives while providing transparency in the fee structure for the City’s development-related and other municipal fees. The last update to the fee schedule was approved by the Council on July 16, 2019.

In December 2018, the Council approved an agreement with Matrix Consulting Group (consultant) to develop a comprehensive User Fee Study. The purpose of the Study is to evaluate current fees to determine the current level of cost recovery, as well as ensure compliance with local and state laws for user fees. During the May 21, 2019 Study Session, the consultant provided information pertaining to the overall User Fee Study with a detailed focus on Phase I Summary of Findings for routine, non-development fee(s).

On May 21, 2019, staff conducted a Study Session with the Council to review the City’s current fee structure. As part of that Study Session, the Council established a three-phased workplan for the review and update of all Citywide User Fees. Phase I of the User Fee Study was approved on July 16, 2019. The purpose of this study session is to provide an update on the fee study, review developer and non-development Fire Fees and obtain feedback on the level of subsidy the Council is willing to provide.

DISCUSSION

The consultant analyzed the cost of service relationships that exist between fees for service activities in the following departments: City Clerk, Building, Housing, Planning, Electric Utility, Finance, Fire, Library, Parks and Recreation, Cemetery, Police, Engineering, Streets, and Water and Sewer Utility.

The results of this Study provide a tool for understanding current service levels, the cost and demand for those services, and what fees for service can and should be charged.

The methodology employed by the consultant is a widely accepted “bottom up” approach to cost analysis, where time spent per unit of fee activity is determined for each position within a Department

or Program. Once time spent for a fee activity is determined, all applicable City costs are then considered in the calculation of the “full” cost of providing each service.

The work accomplished by the consultant in the analysis of the proposed fees for service involved the following steps:

- **Departmental Staff Interviews:** The project team interviewed Departmental staff regarding their needs for clarification to the structure of existing fee items, or for addition of new fee items.
- **Data Collection:** Data was collected for each permit/service, including time estimates. In addition, all budgeted costs and staffing levels for FY 2018/19 were entered into the consultant’s analytical software model.
- **Cost Analysis:** The full cost of providing each service included in the analysis was established. Cross-checks including allocation of not more than 100% of staff resources to both fee and non-fee related activities assured the validity of the data used in the Study.
- **Review and Approval of Results with City Staff:** Departments reviewed and approved these documented results.

As part of the Phase I study presented in May 2019, when comparing the FY 2018/19 fee related expenditures with fees generated in FY 2017/18, it was determined that the City is under-recovering its costs by approximately \$20.5 million and recovering about 44% of its budgeted costs annually. Upon further review and when including additional fees included as part of Phase II, this figure has been refined and totals \$22.4 million or achieving 52% cost recovery. The following table outlines these results on a departmental basis:

Table 1: User Fee Summary of Revenue, Cost, and Cost Recovery

Department	Revenue at Current Fee	Total Annual Cost	Annual Surplus/ (Deficit)	Cost Recovery %
Phase I				
City Clerk	\$31,970	\$33,920	(\$1,950)	94%
Housing & Community Services	\$28,520	\$37,844	(\$9,324)	75%
Finance	\$2,195,923	\$2,624,117	(\$428,194)	84%
Library	\$112,836	\$330,892	(\$218,056)	34%
Cemetery	\$222,026	\$361,224	(\$139,198)	61%
Recreation	\$2,604,667	\$15,053,849	(\$12,449,182)	17%
Police	\$38,185	\$61,278	(\$23,093)	62%
Phase II				
Planning	\$1,220,544	\$3,038,661	(\$1,818,117)	40%
Fire	\$6,347,885	\$7,842,776	(\$1,494,891)	81%
Engineering	\$2,595,287	\$3,319,262	(\$723,975)	78%
Streets	\$301,602	\$729,461	(\$427,859)	41%
Water	\$7,512,306	\$11,527,239	(\$3,744,933)	67%
Sewer	\$1,108,497	\$2,018,617	(\$910,120)	55%

Total	\$24,320,248	\$46,709,139	(\$22,388,892)	52%
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The table above indicates that approximately \$12.4 million of the subsidy is related to Recreation services. Water has the next largest subsidy of \$3.7 million, with Fire and Planning at \$1.5 million and \$1.8 million, respectively.

There are programs, circumstances and services that justify a subsidy from a tax based or alternative revenue source. However, it is essential that the Council prioritize the use of revenue sources for the provision of services based on the continuum of the benefit received.

The following factors are key policy considerations in setting fees at less than 100 percent of cost recovery:

- **Limitations posed by an external agency.** The State or an outside agency will occasionally set a maximum, minimum, or otherwise limit the jurisdiction’s ability to charge a fee at all. An example includes time spent copying and retrieving public documents for PRA responses.
- **Encouragement of desired behaviors.** Keeping fees for certain services below full cost recovery may provide better compliance from the community. For example, if the cost of a permit for changing a water heater in residential home is higher than the cost of the water heater itself, many citizens will avoid pulling the permit, which may lead to unsafe consequences.
- **Effect on demand for a particular service.** Sometimes raising the “price” charged for services might reduce the number of participants in a program. This is largely the case in Recreation programs such as camps or enrichment classes, where participants may compare the City’s fees to surrounding jurisdictions or other options for support activities.
- **Benefit received by user of the service and the community at large is mutual.** Many services that directly benefit a group or individual equally benefit the community as a whole. Examples include Recreation programs, Planning Design Review, historical dedications and certain types of special events.

The primary goals of a User Fee Study are to provide a fair and equitable basis for determining the costs of providing services and assure that the City complies with State law. Once the full cost of providing services is known, the next step is to determine the “rate” or “price” for services at a level which is up to, and not more than, the full cost amount. The Council is responsible for this decision, which often becomes a question of balancing service levels and funding sources. However, with the resulting cost of services information from a Cost of Services Study, the Council can be assured that the adopted fee for service is reasonable, fair and legal.

The following table outlines the cost recovery levels by major department compared to typical cost recovery levels based on the consultant’s experience in analyzing local government’s operations across the United States and in California.

Table 2: Summary of Typical Cost Recovery vs. Santa Clara Fees

Department	Typical Cost Recovery %	City of Santa Clara Current Cost Recovery %
City Clerk	20-40%	94%

Planning	50-80%	40%
Fire	50-80%	55%
Finance	20-40%	84%
Police	20-40%	62%
Public Works	80-100%	89%
Parks and Recreation	20-40%	17%

As part of the Study, staff reevaluated the current fee items against the City’s overall business transactions, added new fees and eliminated redundant items. On July 16, 2019, Council approved deletion of 56 fees and adopted 28 new fees through the Phase I Municipal Fee Schedule Public Hearing process. A detailed list of deleted and new fees for Phase II of the User Fee Study will be itemized in the November 19, 2019, Report to Council.

Due to the magnitude of information presented in this Study and the need to allow staff with sufficient time to understand and absorb the data, as well as to allow for the necessary outreach to the development community, Council directed staff to implement a three phased approach for the 2019/20 Municipal Fee Schedule.

Phase I of the study is now complete. Phase I included routine non-development related fee departments, over recovered fees, new and deleted fees.

Phase II of this study includes Development related fees, non-development Fire fees and a fee structure for community room rentals. Planning fees are proposed to increase from approximately 40% cost recovery to 45%. Many of the subsidies provided in this program relate to the construction of single-family units. Building fees are currently valuation-based and have not been reviewed in over 15 years. Proposed changes include moving to square footage based fee and realigning some of the valuation ranges. Large valuation projects will see a decrease in building fees while lower valuation projects will increase. Fire fees, including non-development prevention and hazardous materials inspection fees are proposed to increase to an overall program cost recovery of 85%. Because some of the fee increases are large, it is proposed to be phased in over a four-year period. Public Works engineering fees as well as development related water and sewer fees are also recommended to be adjusted. It should be noted that the water fees are not the usage-based fees customers pay for water usage. Based on feedback from community outreach related to the structure for community room rentals, a separate discussion will be brought forward to the City Council at a separate date.

Two community outreach meetings were held on September 24 and September 30 in the City Council chambers to discuss the proposed development fees and non-development Fire fees. These outreach workshops were designed to discuss current and updated fee methodology structures utilized by the City of Santa Clara and surrounding Cities along with benchmarking data from comparable cities such as Palo Alto and Sunnyvale. Participants provided feedback regarding these fees included a request for the consultant report and municipal fee study to be posted to provide ample time for public review and comment. Additional feedback included a request to evaluate enhanced services and provide additional Attorney’s Office resources. Overall, there was general support for the proposed fee changes.

The proposed fees for community room rentals were publicly noticed and discussed at the Parks and Recreation Commission and with the Board of Library Trustees on October 15.

At the Parks and Recreation Commission meeting, the Commission approved a motion to recommend approval of the fees to the City Council by a vote of 7-0.

At the Board of Library Trustees meeting, additional clarification was requested with regards to the application of the room rental fees and its correlation to the draft Library Meeting Room Policy previously reviewed by the Board of Library Trustees. In addition, it was also requested that additional language be incorporated to clarify the application of the proposed fees to non-profits who reside outside of the City of Santa Clara. A motion to approve the staff recommendation failed due to a lack of a second. It should be noted that only three members were present.

In an effort to be responsive to the input received from the Library Board of Trustees and the Parks and Recreation Commission, staff will be bringing forward the Community Room Rental Fee proposal separately.

Phase III

Phase III originally included fees that were going to be brought forward during the user fee study process but required more time for the consultant to review. Based on that review, staff is proposing a revised process for the review of Phase III fees as follows:

- 1) Off-site parking fee - The consultant review of these fees requires further analysis. This fee may need to be part of a separate development impact fee consultant review.
- 2) Electric bike/scooter fee - This fee will coincide with the framework to establish the bike and scooter program which is currently on pause due to several new developments in regard to American Disabilities Act compliance and changes in State legislation.
- 3) False alarm fees - These fees are slated for update in December 2019 and contingent upon approval of an Agreement with Superior, LLC for Residential and Business Alarm Management Software.
- 4) Massage program fees - An analysis is underway through the update and amendment process to the City Code; future fee updates will be brought forward through the 2020/21 Municipal Fee schedule process/update.
- 5) Temporary street pole banner permit - This is being re-evaluated and will be updated through the 2020/21 Municipal Fee schedule process.

As these fees will be brought forward separately for City Council consideration at various date(s), specific amendments to the municipal fee schedule for will be included in the City Council discussion. Therefore, the previously planned Phase III of the Cost of Services Study is no longer needed.

ENVIRONMENTAL REVIEW

This is an informational report only and no action is being taken by the City Council. The information being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

FISCAL IMPACT

There is no cost to the City associated with this report other than administrative time and expense. Pending the outcome of discussions on the findings and proposed changes set forth in the Study, any impact on the revenue will be updated in the FY 2019/20 Municipal Fee Schedule scheduled to be considered at the November 19, 2019 City Council meeting. Updates will also be reflected in upcoming updates to the Ten-Year Financial Forecast and future budgets.

COORDINATION

This report has been coordinated with the City Manager's Office and the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

Reviewed by: Kenn Lee, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENT

1. Report on the Cost of Services (User Fee) Study - Phase I and II