



Agenda Report

19-1603

Agenda Date: 7/16/2019

REPORT TO COUNCIL

SUBJECT

Public Hearing: Action on the Adoption of Phase I of the Fiscal Year 2019/20 Municipal Fee Schedule
(Not to be Heard prior to 7:00 PM)

BACKGROUND

On a periodic basis, it is incumbent upon government agencies to comprehensively evaluate and update their fee schedules in an effort to manage resources efficiently and meet service demands. In California, several constitutional provisions such as Propositions 13, 4, and 218, as well as State Government Codes 66014 and 66016, and more recently Prop 26 and the Attorney General's Opinion 92-506 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).

Government agencies are allowed to set fees at rates to obtain fair and reasonable recovery of costs incurred in providing these services, thereby minimizing or eliminating the use of limited general tax revenues. Historically, the City of Santa Clara (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.

The City's proposed FY 2019/20 Municipal Fee Schedule is a compilation of fees for City services provided to members of the public. The 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 fees cover the costs for specific City services, except those mandated by or set by another Council action or document (e.g., Electric Rate Schedule, Water & Sewer Utilities Rate Schedule and Santa Clara Recreation Activity Guide).

Proposition 218 and California Government Code Section 66014 enable local agencies to set fees at rates that obtain fair and reasonable recovery of costs incurred in providing these services, thereby minimizing or eliminating the use of limited general tax revenues to fund these services. To the extent that a fee has been set based upon a presumption of 100% cost recovery, the City cannot waive the fee unless it does so out of another permissible funding source such as the General Fund.

California Government Code Section 66016(a) states that prior to levying a new fee or service charge, or prior to approving an increase in an existing fee or service charge, a local agency shall hold at least one open and public meeting, at which oral or written presentations can be made, as part of a regularly scheduled meeting.

The City Council has directed that cost recovery should be an important component of the City's financial stability strategy by adopting the following Budget Principle that provides guidance for adjustments to the City's 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.*

DISCUSSION

Historically, the City has relied upon the services of a third-party consultant on a three-year rotating basis to prepare a User Fee Study and update the City's Cost Allocation Plan. In December 2018, the City contracted with Matrix Consulting Group (Matrix) to develop a comprehensive Cost of Services Study (User Fee). 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.

Following the work accomplished by Matrix in the analysis of the proposed fees for service, results of the Cost of Services Study was presented to the City Council for discussion and review during a Study Session on May 21, 2019. 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, staff recommended a workplan that includes a phased approach to adopting the updated user fees. Concurring with staff's recommendation, the Council directed staff to pursue updates to the fee schedule using a methodological phased approach. As such, this report reflects Phase I of III, which includes the routine non-development related fee departments.

The Municipal Fee Schedule was carefully reviewed to ensure that new fees cover the full cost of providing the service, fees were updated in response to operational changes, rescinded fees which are no longer needed and retained unchanged fees for various City departments. Certain fees are not included as part of the User Fee Study because the change in the fee is governed by specific criteria such as the change in the Consumer Price Index (CPI) or the increase in year-over-year salary and benefit costs. Fees that are not included as part of the User Fee Study were increased by 1.) 5.3% representing the increase in Salary and Benefits for FY2019/20 and/or 2.) the change in Consumer Price Index (CPI) factor as outlined in the specific fee's governing authority. For those fees that fall below cost recovery, departments have followed the January 31 and February 1, 2019 Council adopted budget Principles and increased fees incrementally to the extent that such increases do not exceed cost recovery.

The FY 2019/20 Proposed Municipal Fee Schedule highlights include the following:

- A phased approach to increasing the Citywide fee(s).
- An increase in Technology Fee from 2.0% to 3.37% based upon the annual costs associated with maintenance and operation of the City's permitting system.
- A consolidation of categories for Copy, City Charter and Fax Machine into a singular category, "Copies", and charging a singular per page rate.

- Converting the current flat fee for Multi-Family (MF) Loan Subordination Request Review to a time and materials (Deposit) service in the Housing & Community Services Division. Transitioning this fee to a deposit allows the City to ensure it recovers the actual cost, rather than over and/or undercharging customers.
- Fifty-six fees are recommended to be deleted from the Fee Schedule (see Table 1). These fees are either obsolete, redundant in nature and/or captured through internal City procedures.
- Twenty-eight new fees have been added to the Fee Schedule (see Table 2). The proposed new fees are to recover the cost resulting from a significant increase in service level for a service that the City already provides, or the assessment of a fee for a service that has been provided at no cost but can be legally charged from the user of the service.

Table 1 - Deleted Fees Phase I

| Department | Number of Deleted Fees |
|-----------------------|------------------------|
| Citywide | 1 |
| City Clerk | 1 |
| Community Development | 1 |
| Electric | 2 |
| Finance | 1 |
| Fire | 44 |
| Library | 1 |
| Parks & Recreation | 1 |
| Police | 2 |
| Water | 2 |
| Total | 56 |

Table 2 - New Fees Phase I

| Department | Number of New Fees |
|-----------------------|--------------------|
| Community Development | 3 |
| Electric | 7 |
| Parks & Recreation | 16 |
| Police | 2 |
| Total | 28 |

To facilitate the review of fee adjustments, the FY 2019/20 Proposed Municipal Fee Schedule (attachment 2) shows the following:

- The column “Current Fee and Period” represents the current fee being charged.
- The column “Proposed New or Revised Fee 2019/20” displays proposed changes to 2018/19 fees, if any.
- Refer to the column “Percent Change” to determine whether a proposed fee is new or revised. If there is a percent amount listed or the word “Delete”, this is a revised fee. If the word “New” appears in the “Percent Change” column, the fee is new.
- Supporting documentation for fee increases and fees identified as “New” are available for review at the City Clerk’s Office.

FISCAL IMPACT

The Proposed FY 2019/20 Municipal Fee Schedule moves the City toward full cost recovery for services rendered. As such, the development of the Proposed FY 2019/20 and 2020/21 Biennial Operating Budget assumes modest growth to revenues that reflect general increases associated with the cost for providing the services for which the fees are imposed. Actual fee changes approved by the City Council in Phase I and/or subsequent phases may result in revenues that differ from those assumed in the operating budget. Staff will continue to closely monitor revenue projections and return to the City Council with budget amendments, if necessary.

ENVIRONMENTAL REVIEW

The action 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.

COORDINATION

This report has been coordinated with the City Attorney’s Office.

PUBLIC CONTACT

On June 26 and July 3, 2019 a notice of the public hearing was published in the *Santa Clara Weekly* in the manner set forth in Government Code Sections 6062a and 66018. 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.

ALTERNATIVES

1. Adopt a resolution for the “City of Santa Clara 2019/20 Municipal Fee Schedule” which (1) sets new fees, rates and charges (collectively “fees”); (2) amends existing fees; (3) deletes certain fees; and (4) retains unchanged fees for various City departments effective on August 1, 2019.
2. Adopt a resolution for the “City of Santa Clara 2019/20 Municipal Fee Schedule” with different fee amendments as those recommended by staff effective on August 1, 2019, and direct staff to adjust the forthcoming FY 2019/20 Recommended Operating Budget accordingly.
3. Take any other action the Council deems appropriate.

RECOMMENDATION

Alternative 1:

Adopt a resolution for the "City of Santa Clara 2019/20 Municipal Fee Schedule" which (1) sets new fees, rates and charges (collectively "fees"); (2) amends existing fees; (3) deletes certain fees; and (4) retains unchanged fees for various City departments effective on August 1, 2019.

Reviewed by: Angela Kraetsch, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Phase I - Report on the Cost of Services (User Fee) Study
2. FY 2019/20 Proposed Municipal Fee Schedule
3. Resolution Adopting the 2019-20 Municipal Fee Schedule
4. Supplemental Information - Responses to Questions from the May 21, 2019 City Council Study Session