



# Staff Report

## City Council

Item No. 5.B

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Meeting Date: April 9, 2025

From: Kevin Biersack, Financial Services Director

Title: City User and Regulatory Fees Update

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### RECOMMENDATION:

This item provides findings and recommendations from the recently completed user fee study. Upon incorporating City Council feedback, staff recommend the City Council hold a subsequent Public Hearing, whereby the City Council can determine whether to adopt the schedule of user and regulatory fees.

### BACKGROUND:

In 1987, following the California State Supreme Court *Nollan vs. California Coastal Commission* decision, the California Mitigation Fee Act was passed. These actions set the stage for Assembly Bill 1600, and Government Code sections 66000-66011. Later, *Ehrlich vs. City of Culver City* (1993), *Doland vs. City of Tigard* (1994), and Proposition 218 (1997) (among others) occurred, enabling public agencies to impose a user fee for government services when:

- The individual's decision to use the governmental service is voluntary, and
- The fee charged is reasonably related to both the level and cost of the service to be provided.

During the past 20 years, the list below comprises the City's actions to update user and regulatory fees:

- In 2005, the City conducted a Cost Allocation Plan ("CAP") and User Fee Study ("UFS") and adopted the studies' recommendations.
  - In 2010, the City conducted a new CAP and UFS, but due to the economic impact of the 2007-09 financial market collapse, the City did not implement the 2010 recommendations.
  - During the January 2020 City Council retreat, Council requested Staff conduct an updated CAP and UFS study. During the September 23, 2020 Council meeting, Council authorized Staff to utilize ClearSource Financial Consulting to conduct the CAP and UFS update. On September 8, 2021, the City Council adopted an updated Schedule of User and Regulatory Fees based on the results of the comprehensive
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cost of service study which was implemented on December 1, 2021.

- In August 2023, City Council adopted the first interim authorized inflationary adjustment based on Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) to the City's current schedule of fees. The increase was implemented November 1, 2023.
- In April 2024, City Council Adopted the second interim authorized inflationary adjustment based on the BLS) CPI to the City's current schedule of fees. The increase was implemented July 1, 2024.
- During February through March 2025, ClearSource Financial Consulting collaborated with City staff to review current fee schedule as well as cost of service data to determine the necessary fee adjustments to ensure the City's cost of Service is captured/recouped.

This report summarizes the findings and recommendations from the recently completed user and regulatory fee study. Since user and regulatory fees are set at the direction of the City Council, upon Council's review and concurrence with the study's results, a subsequent public hearing must be noticed and held in conformance with Government Code Section 66016. If updated fees are adopted by the Council at that time, staff recommends the updated fee schedule become effective beginning July 1, 2025.

## **DISCUSSION:**

Industry best practice and California statute support establishing user and regulatory fees in accordance with the estimated reasonable cost of service. All fees should bear a fair and reasonable relationship to the payer's burdens on, or benefits received from, the activities and/or services provided by the City. Additionally, ongoing review and adjustment of fees provides multiple benefits, including:

- Keeping pace with general cost inflation.
- Avoiding fee spikes that can occur when municipalities leave fees unchanged for a multi-year period.
- Providing fee payers, city staff, and city policymakers with a pattern of consistency that provides information for forecasting and decision-making purposes.
- Helps meet fee-payer service level expectations by collecting fees to fund the existing level of services provided.
- Encouraging generational equity among fee payers by avoiding long-term stagnation of fees followed by significant fee increases.

This study specifically examined fee categories including, but not limited to:

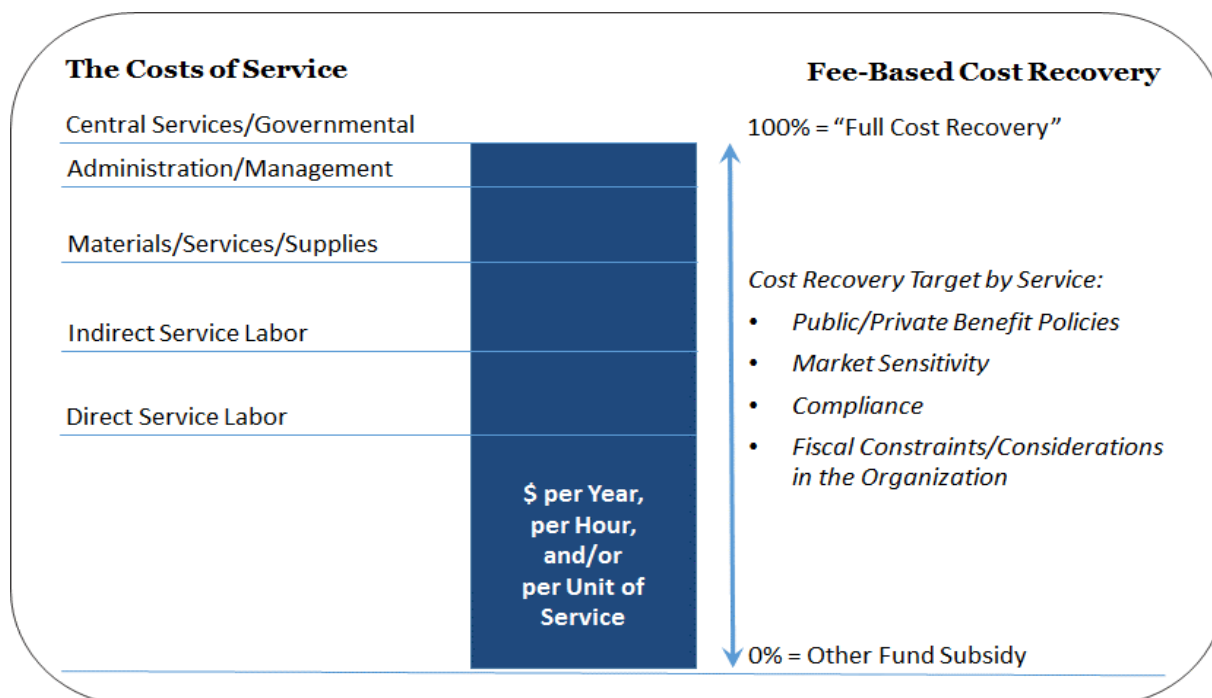
- Building Fees, such as permitting of new construction or modifications to existing structures
  - Planning Fees, such as entitlement review and review for compliance with the zoning code
  - Land Development Engineering Fees, such as public improvement review, and Encroachment Permit Fees, for work or activities conducted in the City right-of-way
  - Fire Prevention Fees – such as plan review and inspection for compliance with Fire Code
  - Police Department Fees – such as vehicle impound and false alarm response
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This study specifically excluded examinations of the following:

- Development Impact Fees
- Taxes
- Assessments
- Fines or Penalties
- Franchise Fees
- Utility Rates and Services Charges

These items are subject to different approval thresholds or are not subject to the same cost of service limitations as the fees examined as part of this study. Consequently, they are specifically excluded from the scope of this study.

The proposed fees are intended to comply with applicable federal, state, and local laws including providing confirmation that the proposed fees and charges are not a tax as defined in Article 13C of the California Constitution and that the proposed fees are no more than necessary to cover the reasonable costs of the City's activities and services addressed in the fees. Additionally, the way costs are allocated to a payor bear a fair and reasonable relationship to the payor's burdens on, or benefits received from the activities and services provided by the City.



Nearly every service for which a fee is imposed can be described as follows, contrasting the components of the full cost of service, which is the maximum fee amount justified, against the local agency's goals for cost recovery:

Based on the consultant's experience working with municipalities throughout California, most fee-paying stakeholders and city councilmembers accept high-cost recovery targets for development-related fees as long as:

- The elements of the cost of service and assumptions are clearly communicated.
- The city clearly communicates that only eligible costs are included in fees.

## **PRIMARY STUDY OUTCOMES**

### **Building Fees**

- Cities throughout the State typically target full cost recovery from building permit fees.
- Full cost recovery is targeted at the proposed fees.
- The building fee schedule is proposed to be simplified to facilitate application of fees to projects and assist customers in estimating permit fees.
- Establish fixed, consolidated fees for the City's most common minor permits. This will allow applicants to easily estimate permit fees and allow staff to efficiently administer the fee calculation and collection process.
- Use a fee methodology that results in lower fees for less complex projects and higher fees for more complex projects (i.e., establish a nexus between fees and typical service requirements).

### **Planning Fees**

- Due to the nature of development within California, many projects take a significant amount of resources over a multi-month and potentially multi-year timeframe, depending on project complexity and magnitude.
- Flat fees are collected for projects that typically exhibit less variability in processing time than deposit-based fee services. Current recovery for flat (fixed) fee services varies widely.
- Several planning fees have been restructured from deposit-based to flat fees to improve operational efficiency.
- In order for the billing system to function properly on deposit -based large projects, the City must have systems in place to track time amongst the various development requests examined by staff and contractors. For deposit-based projects the City should bill project applicants for effort including intake, processing, technical reviews, inspections, meetings, and issuance/approvals.

### **Engineering and Encroachment Permit Fees**

- Land Development engineering and encroachment fees have been streamlined and recalibrated to enhance the correlation between services provided and fees collected. The proposed fee methodology is scaled to allow for lower fees for less complex projects and higher fees for more complex projects.
  - Fee categories have been organized to reflect the phases of development, i.e., pre-entitlement review, post entitlement review, inspections, administrative and research requests, and miscellaneous service requests.
  - Full cost recovery is targeted for most services due to the regulatory nature of the services and the high level of direct benefit resulting from construction activities including enjoyment of property enhancements, increased property values, and the desire to avoid having other Cathedral City residents and businesses subsidize private construction activities.
  - The department uses a combination of outside service providers and internal staff to
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perform certain plan review and inspection activities. The proposed fee structure encourages recovery of City costs in addition to contract service provider costs, while developing fixed fees intended to scale to reflect project complexity.

- The proposed fees are calculated based on project characteristics such as the number of sheets reviewed, the number of acres inspected, or the type of project reviewed and inspected. These modifications are consistent with industry trends in calculating fees for service.

#### Fire Prevention and Ambulance Fees

- Use fee methodology that results in lower fees for less complex projects and higher fees for more complex projects (i.e., a nexus between fees and typical service requirements).
- Adopting a more comprehensive array of fees will allow the city to use more fixed fee billings rather than deposit-based billings.
- Ambulance fees have been added to this fee study update. Based on a review of the initial ambulance fees approved by City Council on July 9, 2008, an increase is recommended to align with current market rates in the Coachella Valley and surrounding area.

In summary, similar fees are collected by communities throughout the region and the State. The proposed fee amounts do not exceed the City's cost of service and are in-range of amounts charged by other jurisdictions. The attached User and Regulatory Fee Study Report includes:

- Fee Comparison with other jurisdictions,
- Cost of Service Analysis, including calculations and changes highlighted, and
- Proposed Fee Schedule, including hourly billing rates

#### **FISCAL IMPACT:**

Based on the matching of user-requested services with the current cost of providing said services, the anticipated increase would be approximately \$200,000 to the city's General Fund. For the ambulance fee update, the City is forecasting an approximate increase of \$300,000 in the first year.

#### **FIVE-YEAR STRATEGIC PLAN:**

The implementation of updated User and Regulatory Fees supports the following strategic plan goals:

**GOAL B: COMMUNITY INVESTMENT** Objective: Cathedral City roads, gateways, public spaces, and other city infrastructure are well planned, designed, constructed, and maintained.

**GOAL C: FISCAL STABILITY AND SUSTAINABILITY** Objective: Cathedral City has economically prospered by facilitating the investment of private dollars in high-quality development which benefits the community. We remain financially solvent by implementing prudent fiscal policies and transparent financial practices.

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ATTACHMENTS:

1. User and Regulatory Fee Study