

Capitola City Council

Agenda Report



Meeting: November 7, 2024

From: Finance Department

Subject: Comprehensive User Fee Study

Recommended Action: Receive a report on the Comprehensive User Fee Study conducted by Willdan Financial Services; provide direction to staff on the updates to the City of Capitola FY 2024-25 Fee Schedule, with adoption of the fee schedule scheduled for November 14, 2024.

Background: The City of Capitola contracted Willdan Financial Services to conduct a comprehensive User Fee Study. The study aimed to analyze and recommend fee adjustments for City services to ensure full cost recovery while maintaining compliance with state laws. The report recommends updated fees across various departments based on the actual costs of delivering services. These adjustments are necessary to align with the City's cost-recovery goals, reduce reliance on the General Fund, and ensure that user-specific services are appropriately funded by the beneficiaries.

Discussion: User fees fund City services that benefit specific users. California law mandates that fees must not exceed the cost-of-service provision, governed by regulations such as Proposition 218 and Proposition 26. Capitola's fees were assessed in furtherance of the cost-recovery goals established by the City Council to maintain financial sustainability.

Since the last study in November 2015, costs to provide certain City services have increased due to inflation, salary increases, and changes in service delivery. The current fee structure is outdated, with many fees set below full cost recovery, leading to a higher dependence on the General Fund.

The purpose of the fee study is to determine the City's actual cost to provide the services and recommend a cost recovery rate. It is worth noting that different cities take different approaches to cost recovery based on local priorities. For example, some cities will only recover 25-30% of costs for recreation programs, while other cities will strive for 100% cost recovery for those same programs. While this study includes a recommended rate for all fees, the Council may establish a lower cost recovery rate for any fee, in effect using tax revenue to help fund the cost for that service. Due to Proposition 218, fees cannot be greater than the amounts identified in the report.

Study Methodology: The study used three key methods:

1. Case Study Method: This estimates the actual labor and material costs associated with specific services.
2. Program Cost Approach: Used for services where individual cost data isn't available, such as recreational programs.
3. Valuation-Based Fees: Applied for building permits, where project valuation reflects the effort required to provide the service.

These methods were completed by meeting with City staff to gather accurate data on time and resource allocation for each service.

Key Study Findings:

1. **Cost Recovery:** The study determined the fee amount to achieve full cost recovery for services across various departments, with recommendations to either increase, decrease, or maintain fees. Many current fees in the Public Works, Police, Planning, and Building departments are below full recovery levels.
2. **Elasticity of Demand:** Increased fees could reduce demand for some services, while lowering fees could encourage usage and demand on City services. However, these economic impacts were not the primary focus of the study.
3. **Subsidization:** Some services that provide broad public benefits are proposed to continue to be subsidized by the General Fund, such as community services and certain public safety measures.

Recommendations by Department:

1. **Public Works:**
 - Significant fee increases are recommended to cover the costs of traffic control plan reviews, construction parking permits, and stormwater development reviews required for development in the City.
 - Several new fees for inspection and permit services have been introduced.
2. **Police Department:**
 - A 38% average fee increase is proposed, with adjustments to fees imposed to review and issue special event permits and amplified sound permits, and various other administrative fees.
 - New fees for services like vehicle boot removal and tow hearings are introduced to align with full cost recovery.
3. **Planning Division:**
 - Adjustments reflect a 3% average decrease due to revised cost estimates for services like tree removal permits and accessory dwelling unit reviews.
 - The Planning Division recommends new fees for complex planning applications and environmental reviews to capture full-service costs.
4. **Building Division:**
 - Proposed increases for building plan checks and inspection fees to reflect the additional staff time required for larger and more complex projects.
 - New fees for permit extensions and reinstatements are also introduced.
5. **Community Services and Recreation Department:**
 - Adjustments aim to keep programs affordable while improving cost recovery. The average recommended increase in fees for facility rentals and recreation programs is approximately 2%.
6. **Historical Museum:**
 - No changes recommended; fees will remain at current levels.
7. **Miscellaneous:**

- Increase Outdoor dining space rent by 2023 CPI amount of 3.67% increasing from \$1.50 per square foot to \$1.56 per square foot and from \$3,400 annually per parking space to \$3,524.78 annually per parking space.
 1. This increase was not included in the attached User Fee Study Report and was added by staff.

Policy Considerations: The City Council should consider the following when deciding on fee adjustments:

- **Public vs. Private Benefit:** Services that solely benefit individuals should aim for full cost recovery, while services benefiting the broader public may justify some level of subsidization.
- **Affordability and Access:** Certain services, particularly recreational and community programs, may require subsidization to ensure equitable access for all residents.
- **Inflationary Adjustments:** It is recommended to include an inflationary factor in future fee schedules to account for rising service costs without requiring comprehensive fee reviews each year.

Conclusion: This comprehensive User Fee Study ensures that Capitola has the necessary tools to manage its resources effectively. By adopting the proposed fee schedule, the City can improve cost recovery, reduce General Fund subsidies, and maintain compliance with state regulations.

Fiscal Impact: None at this time, staff anticipates returning to City Council on November 14, 2024, with a resolution to adopt the FY 2024-25 Fee Schedule.

Attachments:

1. User Fee Study
2. Cost Allocation Plan

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